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COMMITTEE ON FOREIGN AFFAIRS

THE MUTUAL SECURITY ACT

AND

OVERSEAS PRIVATE INVESTMENT

PRELIMINARY REPORT

OF THE

SUBCOMMITTEE ON
FOREIGN ECONOMIC POLICY

JUNE 3, 1953



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LETTERS OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C., May 27, 1953.

This report has been submitted to the Committee on Foreign Affairs by the Subcommittee on Foreign Economic Policy, comprising Hon. Jacob K. Javits (chairman), Hon. Donald L. Jackson, Hon. Karl M. LeCompte, Hon. Laurie C. Battle, and Hon. Burr P. Harrison.

The report is being distributed in subcommittee print form so that it may be available to the full membership of the Committee on Foreign Affairs.

ROBERT B. CHIPERFIELD, *Chairman.*

MAY 27, 1953.

HON. ROBERT B. CHIPERFIELD,
*Chairman, Committee on Foreign Affairs,
House of Representatives, Washington, D. C.*

DEAR MR. CHAIRMAN: There is transmitted herewith the report of the Subcommittee on Foreign Economic Policy on the Mutual Security Act and Overseas Private Investment.

It is hoped that the information which the report contains will be useful to the members of the committee in connection with the present hearings on the proposed Mutual Security Program for fiscal year 1954.

JACOB K. JAVITS, *Chairman.*

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FOREWORD

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
FOREIGN AFFAIRS COMMITTEE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., May 27, 1953.

The Foreign Affairs Committee wrote into the Mutual Security Act of 1951, section 516, which constitutes the basic charter of private-enterprise participation in the mutual security program. This concept was broadened and made more definitive by the committee in the 1952 amendatory act. Indeed, section 516 represents a major step taken legislatively toward a positive position of enlisting the partnership of private enterprise to a significant degree in implementing United States foreign policy in general.

The Subcommittee of the Foreign Affairs Committee on Foreign Economic Policy deals with "all matters affecting our foreign relations that concern trade, international financial and monetary organizations, foreign loans, and technical and economic assistance." The subcommittee has been engaged in taking testimony from the Government and interested private groups on the whole range of United States foreign economic policy. One of the elements of that policy is the question of stimulating a greater participation by American private enterprise as an arm of American effort in making our foreign policy work.

This report gives an account of the implementation by the executive branch of section 516 and related sections of the Mutual Security Act, together with a statement of the major recommendations submitted to the subcommittee. The report is preliminary. It is the intention of the subcommittee upon the completion of its study to issue a report covering other facets of American foreign economic policy. Since the question of private enterprise overseas cannot be considered by itself, separate and distinct from other programs, only the major recommendations made or brought to the attention of the subcommittee are included, in consolidated form.

JACOB K. JAVITS, *Chairman.*

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THE MUTUAL SECURITY ACT AND OVERSEAS PRIVATE INVESTMENT

I. INTRODUCTION

A. COMMITTEE REPORT ON ACT FOR INTERNATIONAL DEVELOPMENT

The House Foreign Affairs Committee in reporting favorably the Act for International Development emphasized that there were two equally important parts of the technical cooperation program—technical assistance and investment capital:

Technical cooperation programs and methods to encourage the flow of investment capital are the means available. They are mutually complementary and indispensable to economic development. Section 302 emphasizes this point, and section 303 embodies it in policy instructions to United States Government agencies.

Economic development cannot be achieved in underdeveloped areas simply by providing dollar aid to purchase equipment, food, or raw materials. Funds spent for these purposes in these areas would not go to the root of the matter. They could not be efficiently utilized in many cases. To a large extent they would be wasted. The problem is primarily one of assisting peoples to make more effective use of their own resources, human and physical, than they have up to this time. This will require capital in the beginning or later, in the form of loans or investments.

Two of the most effective means to achieve economic development are technical assistance and a greater flow of investment capital. Both are necessary if levels of national income, as measured by economic productive power, are to be raised. The cold figures of energy consumption, health conditions, life expectancy, and the like, show that until some improvement can be effected, productive power will remain low no matter how much capital flows in. At the same time, it is footless to embark on a program of utilizing resources more efficiently if the flow of investment capital is not encouraged (H. Rept. No. 1802, pt. 4, 81st Cong., pp. 4 and 7).

B. COMMITTEE REPORT ON MUTUAL SECURITY ACT OF 1952

In reporting out H. R. 7005, amending the Mutual Security Act of 1951 (which later became Public Law 400, 82d Congress, Mutual Security Act of 1952), the Foreign Affairs Committee further stated:

One of the basic principles which the Congress has emphasized in the statutes governing the mutual security program is the importance of private capital investment as a potent force in raising the economic and social standards of underdeveloped areas. Not only does private investment bring capital, but it also brings with it technical knowledge and management experience, so sorely needed. Further, it relieves the American taxpayer, in the long run, of the burden of governmental foreign aid where cooperative aid can be appropriately handled by private sources. Moreover, private capital offers a natural vehicle for close cooperation between private citizen and private citizen rather than between government and government, and hence is of special importance. There are several provisions in the law which deal with this principle, notably sections 516 and 520 of the Mutual Security Act of 1951, sections 403, 405 (e), 407, 409, and 410 of the Act for International Development, and sections 111 (b) (3) and 111 (c) (2) of the Economic Cooperation Act of 1948, as amended. They were seriously and carefully written by the legislative branch. It was, and is, intended that they be implemented. The committee is not satisfied that the Director for Mutual Security has exerted all the reasonable effort possible to implement those

provisions. In amending section 516 of the Mutual Security Act, the committee makes more explicit in this bill its intent with respect to the role of private enterprise in building mutual security. It is not, of course, the objective of this program to benefit private capital. The point is that private capital has a definite place in the program which should be recognized by the executive branch and our partners in mutual security (H. Rept. 1922, 82d Cong. 2d sess., p. 62).

C. PURPOSE OF SUBCOMMITTEE REPORT

The purpose of this subcommittee report is to give an account to the committee and to the Congress of the implementation by the executive branch of section 516 of the Mutual Security Act of 1951, as amended:—

(1) Taking into consideration the two complementary methods to achieve economic development, laid down in the Act for International Development;

(2) In the light of the legislative intent of section 516, above; and

(3) In view of the statement by the Honorable Jacob K. Javits, sponsor of section 516, during the debate on the conference report on H. R. 7005 that—

it is the intention of our committee to follow through and see that the various Government departments concerned implement those sections and do something about them as a very sure way of seeing that our burdens from the Government side are reduced.

D. PRESIDENT'S STATE OF THE UNION MESSAGE (FEBRUARY 2, 1953)

The part of free private enterprise in foreign economic policy takes on added importance in view of the President's state of the Union message to the 83d Congress, February 2, 1953, in part, as follows:

Our foreign policy will recognize the importance of profitable and equitable world trade. A substantial beginning can and should be made by our friends themselves * * * Action along these lines can create an economic environment that will invite vital help from us. Such help includes * * * doing whatever our Government can properly do to encourage the flow of private American investment abroad. This involves, as a serious and explicit purpose of our foreign policy, the encouragement of a hospitable climate for such investment in foreign nations.

II. DIVISION OF FUNCTIONS

Section 516 of the Mutual Security Act of 1951, as amended by section 7 (k) of the Mutual Security Act of 1952, recognizing that different agencies of the Government have different functions to perform, divides the responsibilities as follows:

A. MUTUAL SECURITY AGENCY

(b) To accomplish the purpose of clause (1) of subsection (a) of this section,¹ under the coordination of the Director for Mutual Security, the Mutual Security Agency, cooperating with private business groups and governmental agencies to the fullest extent possible, shall encourage a greater participation by private capital in the guaranty program and shall develop broad criteria to facilitate such participation, including programs consistent with the purposes of the Act for International Development.

¹ This clause provides: "It is hereby declared to be the policy of the Congress that this Act shall be administered in such a way as (1) to eliminate the barriers to, and provide the incentives for, a steadily increased participation of free private enterprise in developing the resources of foreign countries consistent with the policies of this Act."

B. DEPARTMENT OF COMMERCE

(c) The Department of Commerce shall, in cooperation with such groups and agencies (including the International Bank for Reconstruction and Development), conduct a thorough study of the legal and other impediments, foreign and local, to private investment abroad, and the methods and means whereby those impediments can be removed or decreased and shall make recommendations thereon to the Director for Mutual Security.

C. DEPARTMENT OF STATE

(d) The Department of State, in cooperation with other agencies of the Government concerned with private investment abroad, and taking into account the study and recommendations described in subsection (c) of this section, shall accelerate a program of negotiating treaties of commerce and trade, or other temporary arrangements where more suitable or expeditious, which shall include provisions to encourage and facilitate the flow of private investment to countries participating in programs under this Act.

D. TECHNICAL COOPERATION ADMINISTRATION

(e) The Technical Cooperation Administration, taking into account the study and recommendations described in subsection (c) of this section, shall encourage and facilitate a greater participation by private industrial groups or agencies in private contracts awarded by the Administration, and shall, in cooperation with the Department of Commerce and the Mutual Security Agency, find and draw the attention of private enterprise to opportunities for investment and development in underdeveloped areas.

E. OVERALL SUPERVISION BY DIRECTOR FOR MUTUAL SECURITY

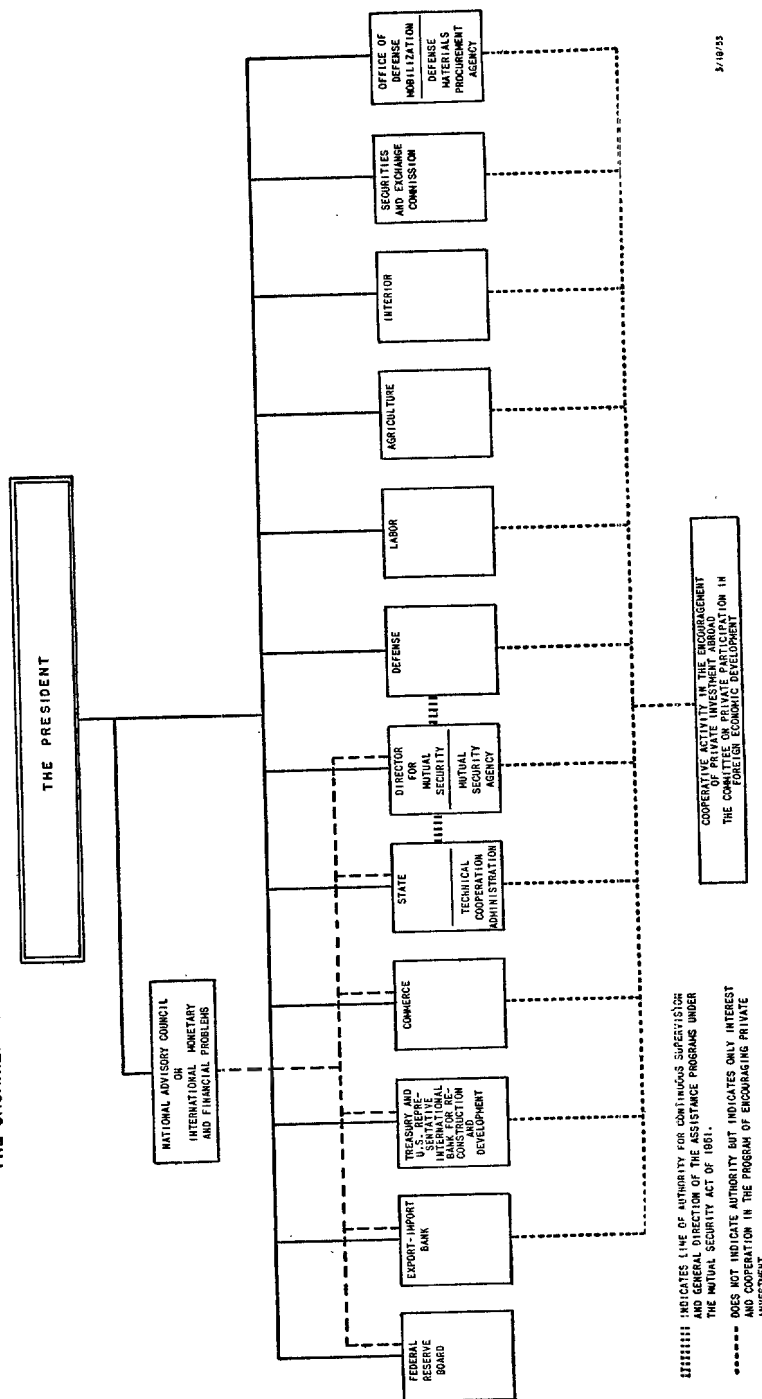
It is to be noted that section 501 of the Mutual Security Act of 1951, as amended, places upon the Director for Mutual Security overall responsibility for continuous supervision and general direction of the mutual-security program. The stated purpose is to fix responsibility for the coordination and supervision of the various aspects of the program in a single person so as to give unified direction to the activities authorized. Insofar as agencies participate in the program, they, of course, come within the purview of this overall responsibility. Moreover, during the debate on the conference report on H. R. 7005, the sponsor of section 516 made it clear that the agencies concerned "should work closely together and with the Director for Mutual Security."

III. MECHANICS OF ORGANIZATION

A. STRUCTURE

CHART 1

THE ORGANIZATION OF THE EXECUTIVE BRANCH FOR ENCOURAGEMENT OF PRIVATE INVESTMENT ABROAD



||||| INDICATES LINE OF AUTHORITY FOR CONTINUOUS SUPERVISION AND GENERAL SUPERVISION OF THE ASSISTANCE PROGRAMS UNDER THE MUTUAL SECURITY ACT OF 1951.

----- DOES NOT INDICATE AUTHORITY BUT INDICATES ONLY INTEREST AND COOPERATION IN THE PROGRAM OF ENCOURAGING PRIVATE INVESTMENT.

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CHART 2



CHART 3

THE ORGANIZATION OF THE DEPARTMENT OF STATE FOR ENCOURAGEMENT OF PRIVATE INVESTMENT ABROAD

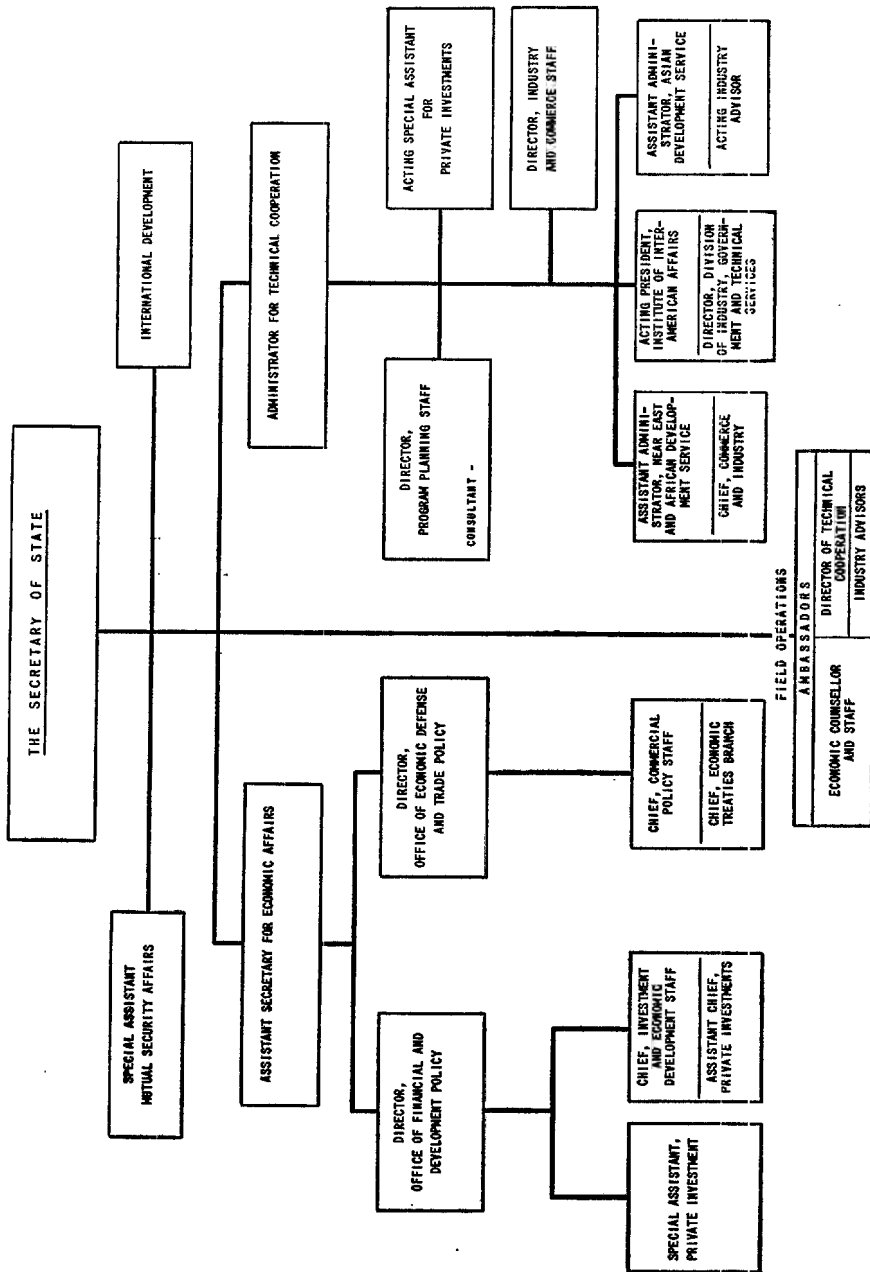
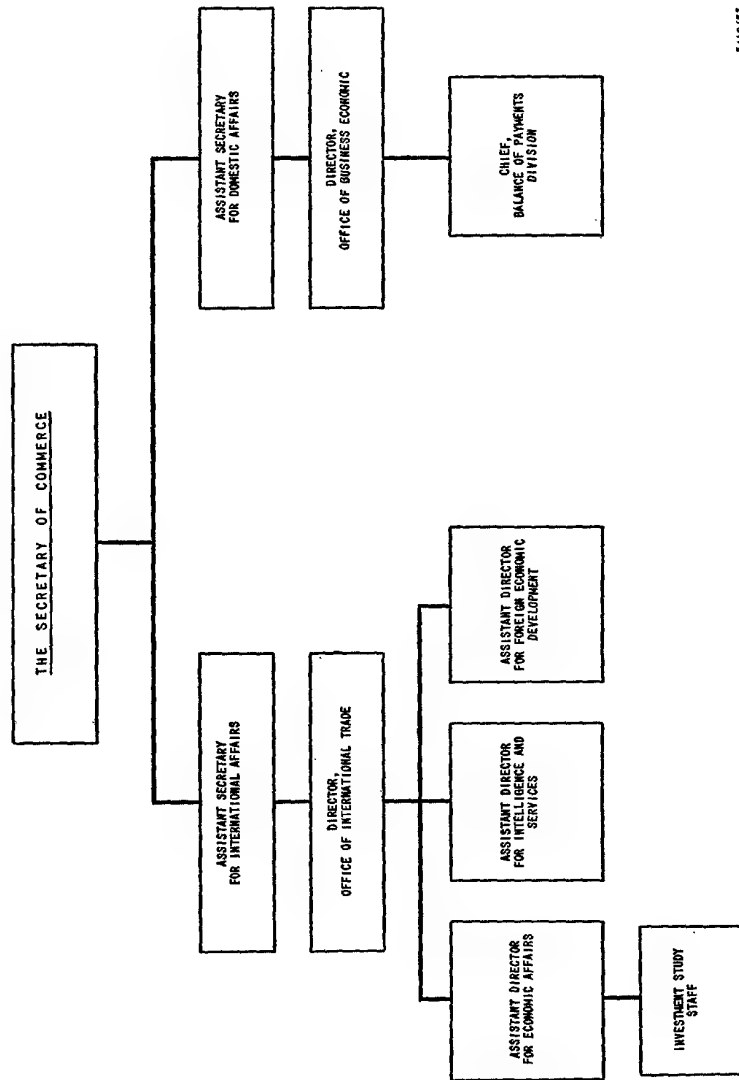


CHART 4
THE ORGANIZATION OF THE DEPARTMENT OF COMMERCE FOR ENCOURAGEMENT OF PRIVATE INVESTMENT ABROAD



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B. INTERAGENCY MECHANISM

The Mutual Security Act of 1951 assigned to the Director for Mutual Security "primary responsibility for continuous supervision and general direction" of the programs of military, economic, and technical assistance authorized in the act. The Director thus acquired responsibility to coordinate the efforts under the Act for International Development to encourage "the flow of investment capital" and under the Mutual Security Act of 1951 "to eliminate the barriers to, and provide the incentives for increased participation of free private enterprise." (sec. 516). The Mutual Security Act of 1952 amended section 516 of the 1951 act by adding the specific references to the responsibilities of MSA, TCA, State, and Commerce in encouraging private investment, quoted above. It required the Mutual Security Agency (MSA) under the coordination of the Director for Mutual Security (DMS), to "encourage a greater participation by private capital in the guaranty program."

1. Establishment of Inter-Agency Committee

The Director for Mutual Security, after consultation with the National Advisory Council, established in February 1952 an Inter-Agency Committee on Private Participation in Foreign Economic Development in order to provide a common forum in which all agencies whose operation in any way could encourage private investment abroad were represented. In addition to MSA and TCA, other member agencies, not under the coordination of the Director, included State, Defense, Treasury, Interior, Agriculture, Commerce, Labor, Export-Import Bank, Defense Materials Procurement Agency, Securities and Exchange Commission, and, in an associate capacity, the International Bank for Reconstruction and Development. The committee served as a facility to make possible greater interagency exchange of information and ideas. It has not served as an inter-agency coordinating body.

2. Establishment of steering group

In July 1952, there was established a steering group, consisting of the agencies most concerned. The group included MSA, TCA, State, Treasury, Commerce, and, on some matters, the Export-Import Bank. Through weekly meetings with this group during the early months of the fiscal year, the Director kept himself informed of the activities of the principal agencies concerned. For example, the group provided a forum for formulating comments and recommendations for the United States representatives at the meeting last summer of a group of experts requested by the Organization for European Economic Cooperation (OEEC) to study private investment in dependant territories in Africa. In July 1952, the Director issued a document prepared cooperatively with the agencies, setting forth their policies, program plans, and organizational responsibilities relating to section 516, as amended. Directives were issued MSA and TCA to undertake intensive programs as rapidly as possible in certain specified countries that the agencies might deem most appropriate for initial effort and experimentation. This is being pursued by both agencies.

3. *Agency-to-agency contact*

More recently, direct agency-to-agency contact has been maintained with TCA, MSA, State, and Commerce on their various specific assignments in section 516. In particular, there have been meetings every 2 weeks between DMS and Commerce concerning the progress of the investment study being conducted pursuant to section 516 (c). DMS has also been in touch with problems which have arisen in extending the investment guaranty program to the underdeveloped areas and in initiating experimental investment programs in particular countries.

4. *Preliminary work pending Commerce study*

During October 1952 it became apparent that the Commerce study would not be available in time to be a basis for fundamental discussions in early 1953 on the future activities concerning private investment under the Mutual Security Program. The course of the study indicated that it would be concerned principally with investment conditions and the nature of investment deterrents in foreign countries, with recommendations for improving such situations, and would not result in extended treatment of financial inducements which the United States Government might wish to consider as measures capable of a significantly early increase of the rate of new private investment abroad. Therefore, the Director for Mutual Security with the aid of a small temporary staff drawn from MSA and TCA, and supplemented by several part-time consultants, has been preparing preliminary material to assist the Director concerning various forms of inducements to encourage a greater amount of private investment abroad. It was hoped that this work would form a useful complement to the Commerce study.

IV. INCREASING INTEREST IN THE PROGRAM

A. IMPACT OF MUTUAL SECURITY PROGRAM

The problem of private enterprise in the context of the foreign economic policy of the United States has received attention and study since the authorization of the Mutual Security Program by the Congress. With the passage of the Mutual Security Act of 1952 the process was accelerated. It may be stated that this is due in large measure to the efforts of the House Foreign Affairs Committee in this respect, manifested in section 7 (k) of the 1952 act drafted in committee, which expanded and made more definitive the intent of the Congress contained in the original section 516 of the 1951 act.

B. THE DOUGLAS APPOINTMENT

On March 19, 1953, the President announced the designation of Lewis W. Douglas, former Under Secretary of the Treasury and former Ambassador to Great Britain, as head of a study group to reexamine United States foreign economic policy. It is expected that Mr. Douglas will confine his study to financial subjects growing out of the United States-United Kingdom economic discussions held in Washington in February and March.

C. PRESIDENT'S MESSAGE TO CONGRESS (MAY 1, 1953)

On May 1, 1953, the President in a message to the Congress recommended that a commission be established to make a review and thorough reexamination of our foreign economic policy (H. Doc. No. 138, 83d Cong.). In this message the President again stressed the role of private enterprise as an arm of United States foreign economic policy:

As I indicated in my previous message, the achievement of a strong and self-supporting economic system in the free world, capable of providing adequate defense against aggression and of achieving rising standards of living, must be a cooperative effort. Through increasing two-way international trade and stimulating in every practical way the flow of private investment abroad we can strengthen the free world, including ourselves, in natural and healthy ways. By so doing, we can lessen and ultimately eliminate the heavy burden of foreign aid which we now bear. Both we and our friends abroad earnestly desire to see regular trade and investment replace grant assistance.

D. UNITED NATIONS

1. *Economic and Social Council*

Various bodies of the United Nations have frequently discussed the subject of private investment, usually as part of the broad problem of financing the economic development of underdeveloped countries. In 1950, for example, the Economic and Social Council adopted a resolution which stressed the duty of governments of the underdeveloped countries to take domestic measures, and to negotiate international agreements, for the encouragement of private investment. A further resolution adopted by the Council the following year went into greater detail. Specific steps were recommended to underdeveloped countries, such as the institution of programs of education and domestic reforms to attract private capital, the preparation of information for foreign investors, the avoidance of double taxation, negotiation of commercial treaties which include provision for duty-free importation of capital equipment, guaranties against nonbusiness risks, reexamination of local investment laws, assurances that foreign investors may manage and expand their enterprises, provision of compensation in the event of nationalization, and the like.

At the request of the Economic and Social Council of the United Nations, the Secretary General appointed a group of experts to study the problem of reducing unemployment and underemployment in underdeveloped countries. The expert group presented a unanimous report on Measures for the Economic Development of Underdeveloped Countries, which was published in May 1951 under U. N. auspices. In the section of the experts' report dealing with external capital from all sources, a very rough estimate is given of the amount of capital required by underdeveloped countries (including the Republic of China) to raise their national income per capita by 2 percent per annum. The calculation is necessarily crude but is included in the report to give some notion of the substantial magnitudes involved. Total capital needed is estimated at \$19 billion per annum (about 20 percent of the national incomes of these countries) of which the annual capital required from external sources is in excess of \$10 billion.

2. General Assembly Resolutions (December 1952)

The most recent U. N. action was the adoption of a resolution by the General Assembly last December, which will set the stage for an extensive discussion in the Economic and Social Council at an early session of the steps the United Nations, the specialized agencies and Member Governments might take to stimulate the steady flow of private capital in adequate amounts into underdeveloped countries. Sections B and C of the resolution read as follows:

SECTION B

The General Assembly,

1. *Taking note* with satisfaction of the preliminary report by the International Bank for Reconstruction and Development which had been requested by the Economic and Social Council, in its resolution 368 (XIII) of 22 August 1951, to consider the potential contribution an international finance corporation could make to promote economic development through the financing of productive enterprise in under-developed countries,
2. *Recalling* that the Economic and Social Council, in its resolution 416C (XIV), requested the International Bank for Reconstruction and Development to continue its examination of the proposal and, in the light of that further examination, to seek the views of its member governments on the desirability of establishing such a corporation, and to inform the Council during 1953 of the results of its further examination of the proposal and the action it has taken concerning it,
3. *Considering* that the questions relating to the establishment of an international finance corporation have been discussed by the Economic and Social Council at several sessions, and that consultations are in progress with a view to defining more clearly in what respects this proposal can be made practicable with the object of providing greater facilities for financing the development of under-developed countries,
4. *Looks forward* to the early completion of their tasks by the International Bank for Reconstruction and Development and the Economic and Social Council;
5. *Requests* the Secretary General to place at the disposal of the International Bank the records of the discussion of this subject at the seventh regular session of the General Assembly; and
6. *Requests* the Economic and Social Council to report to the General Assembly at its eighth regular session on the progress of the proposal regarding the establishment of an international finance corporation.

SECTION C

The General Assembly

1. *Considering*
 - (a) the importance of stimulating the international flow of private capital for the economic development of the under-developed countries,
 - (b) the work which has already been done in this field by the Economic and Social Council, by its regional commissions, and by the specialized agencies; and the various studies on this question which have been prepared by governments of various Member States, by the Secretary General and by a number of non-governmental organization,
 - (c) that certain governments have taken action designed to stimulate the flow of private capital for economic development purposes, and
 - (d) that despite the efforts which have already been made in this regard, the flow of private capital is not yet adequate to cover the need of the under-developed countries;
2. *Requests the Secretary General*
 - (a) to include in an early future world economic report an analysis of the international flow of private capital including the volume and direction of that flow as well as the types and the fields of application of such investment and any reasons for the continued inadequacy of such investment in under-developed countries so as to facilitate the Council's efforts in its formulation of constructive proposals, and

(b) to prepare a memorandum for the Economic and Social Council summarizing the work done, the studies conducted and actions taken, as referred to in sub-paragraphs (b) and (c) of paragraph 1 above; and

3. *Requests the Economic and Social Council*, in the course of its consideration of the question of financing economic development in the light of the analysis and the memorandum referred to in paragraph 2 above, to give attention at an early session to the steps the United Nations, the specialized agencies and Member Governments might take to stimulate the steady flow of private capital in adequate amounts into under-developed countries.

In December 1952, the General Assembly of the United Nations adopted a "nationalization" resolution, over the objection of the United States delegate, concerning the right of member states freely to exploit their natural resources. The text of the resolution is as follows:

The General Assembly,

Bearing in mind the need for encouraging the underdeveloped countries in the proper use and exploitation of their natural wealth and resources,

Considering that the economic development of the underdeveloped countries is one of the fundamental requisites for the strengthening of universal peace,

Remembering that the right of peoples freely to use and exploit their natural wealth and resources is inherent in their sovereignty and is in accordance with the Purposes and Principles of the Charter of the United Nations,

1. *Recommends* all Member States, in the exercise of their right freely to use and exploit their natural wealth and resources wherever deemed desirable by them for their own progress and economic development, to have due regard, consistently with their sovereignty, to the need to maintain the flow of capital in conditions of security, mutual confidence and economic cooperation among nations:

2. *Further Recommends* all Member States to refrain from acts, direct or indirect, designed to impede the exercise of the sovereignty of any State over its natural resources.

This resolution developed from a draft resolution presented by the Uruguayan representative on the Economic and Financial Committee of the Assembly. In its original form, the draft resolution called upon the U. N. to recognize the right of states to nationalize domestic resources and implied that this right needed protection and that the General Assembly favored nationalization as a matter of policy. Action on the resolution was opposed by the developed countries and by some of the underdeveloped countries such as the Philippines. This opposition was based on (1) the fact that the problem of the right to dispose of natural resources was already before another body of the United Nations; and (2) the unfavorable impression such a resolution would make on private investors, since it contained no reference to the obligations of states to respect the rights of foreign investors in connection with nationalization. The resolution, however, was forced to a vote and carried in the Committee after rejection of a series of United States amendments designed to set forth in general terms the obligations toward private investors in cases of nationalization.

The unfavorable response to the resolution by the United States financial press and by business groups interested in foreign investment had an effect upon some delegates who were supporting the resolution. In the Assembly the Indian delegation proposed an amendment calling upon countries which nationalized to bear in mind—

the need to maintain the flow of capital in conditions of security, mutual confidence, and economic cooperation among nations.

Although this amendment considerably improved the resolution, the United States delegate felt it did not go far enough and hence could not support the amendment. In the plenary session of the Assembly the amended resolution was adopted by a vote of 36 to 4 with 20 abstentions. The United Kingdom, South Africa, and New Zealand joined the United States in voting against it. The United States delegate stated that the resolution was still unbalanced since it did not give adequate attention to the obligations of governments which nationalized. A number of countries abstained on the grounds that the resolution was unnecessary (in that the right to nationalize is well recognized under international law) and might have harmful repercussions on the flow of private investment into underdeveloped areas.

3. *Fiscal Commission*

The Fiscal Commission of the U. N., which met in New York April 27-May 8, 1953, had before it the question of fiscal incentives to increase the international flow of private capital for the economic development of underdeveloped countries. The basis for the inclusion of this item on the agenda was a resolution adopted by the Economic and Social Council last July calling upon the Fiscal Commission to:

give further consideration to the problems of taxation in relation to foreign investments . . . [and] to examine further the proposal that, through bilateral agreements or unilateral measures, income from foreign investments in under-developed countries should be taxed only in these countries, with such income being exempted from taxes by countries other than those in which the foreign investments are made . . .

4. *Secretariat report*

In preparation for this discussion the U. N. Secretariat prepared reports on the Taxation of Foreign Investment in Mexico, and on United States Income Taxation of Private United States Investment in Latin America. The latter report was largely the work of certain American experts, including Mr. Dan Throop Smith, formerly of the Harvard Business School, who did this work for the U. N. before his recent appointment as assistant to the Secretary of the Treasury.

5. *Fiscal Commission resolution*

During its session the Commission adopted the following resolution for inclusion in its report to the Economic and Social Council:

FISCAL INCENTIVES TO INCREASE THE INTERNATIONAL FLOW OF PRIVATE CAPITAL FOR THE ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES

The Economic and Social Council, Recognizing

(a) The great importance of finding means to stimulate the flow of private investment from the highly developed to the under-developed countries, in order to accelerate the economic development of the latter,

(b) That the present flow of capital exported to the under-developed countries is insufficient for their development needs,

(c) That relatively lower taxation in force in the under-developed countries is one of the attractions which such countries can offer to foreign capital as an incentive to investment,

(d) That this incentive becomes less effective—although international double taxation is avoided—if the capital-exporting countries apply to the income from investments in under-developed countries any further taxation beyond that already paid in the latter,

(e) That favourable tax treatment is one of the many factors affecting the flow of foreign capital,

1. *Reaffirms* that the country in which income arises has as a general principle an undoubted right to tax that income;
2. *Recommends* that the highly developed countries acting unilaterally or when concluding tax agreements should give sympathetic consideration to the feasibility of taxing such income only or primarily in the country in which the income was produced.

In supporting this resolution in the Commission Mr. Smith made the following statement concerning the attitude of the new administration:

Attention is now being given to possible additional tax incentives to foreign investment. The proposals under consideration include extension of the Western Hemisphere trade corporation treatment to other sections of the world; a further reduction in rates applicable to income received from such special corporations; a liberalization of the application of the foreign tax credit; a provision under which the income of foreign branches of United States corporations will not be taxed until it is brought into the United States (as is now the case with the income of foreign subsidiaries); and, finally, some form of tax exemption or special low rate of tax applicable to foreign income. The examination of this subject by the present administration has not progressed to the point where any indication can be given as to the recommendations which will be made to the Congress. Such recommendations as are made must, of course, be consistent with the maintenance of a sound domestic tax system.

Some loss in revenue, if it can be really effective in stimulating international capital movements, will of course be acceptable, but it should be incurred only when there are reasonable prospects for desirable incidental results arising therefrom. The problem is to maintain a balance among objectives, with full recognition of the importance of encouraging international capital movements

6. *Other activities*

The foregoing is by no means complete insofar as U. N. activities are concerned. Various reports and studies have been issued from time to time, for example, by the Economic Commission for Latin America and the Economic Commission for Asia and the Far East. Both Commissions have produced studies, country by country, on the economic and legal status of foreign investments in their member countries, and have publicized the legal requirements of capital exporting countries. However, the December assembly resolution, and the Fiscal Commission's work, best illustrate the current attention of the U. N. to this subject, and will provide the basis for such further activities by the U. N. as may be agreed in the Fiscal Commission or in the Economic and Social Council.

E. EXECUTIVE BRANCH

1. *The President's Materials Policy Commission*

In its report *Resources for Freedom*, the Commission in June 1952 recommended:

(a) That executive resource agreements with other governments should be negotiated when there are clear indications that new investment in minerals enterprises would take place in a particular country if legal and administrative deterrents were lifted.

(b) That the taxpayer be permitted to elect annually whether the "per country" or "overall limitation" will apply in computing credits for taxes paid abroad.

(c) That deferral of reporting income from overseas branches until the income is remitted to this country be permitted, as is the case with subsidiaries.

(d) That domestic corporations with foreign subsidiaries be given the same rights to file and obtain the benefits of consolidated returns as affiliated domestic corporations have.

(e) That taxpayers be permitted in computing the portion of their dividends that represents taxable earnings to make a deduction corresponding to their share in the foreign corporation of the same outlays of the corporation for exploration and development as domestic producers are permitted to make and to treat that deduction as a return of capital rather than as taxable earnings. On the question of broader tax exemption, in the opinion of the Commission, the weight of the argument is clearly against unilateral tax exemption by the United States for income received from abroad. On guaranties, the Commission believes that the present guaranties against inconvertibility and expropriation should be viewed as experimental pending longer and geographically more extended experience.

2. *The International Development Advisory Board*

As part of his testimony before the subcommittee, the Honorable Eric Johnston, Chairman of the International Development Advisory Board, included a statement with respect to measures to create a favorable climate for American capital abroad, which involve action by other governments:

* * * very little has been done beyond identifying the factors which contribute to an unfavorable climate in many of the countries concerned. Recommendations have been made regarding the necessity of eliminating those factors, but virtually nothing has been done to implement the recommendations.

The question thus arises as to how we can best pursue the "serious and explicit purpose" of encouraging "a hospitable climate for such investment in foreign nations."

The problem calls for direct action. It has not yielded to the conventional approach through diplomatic channels; it cannot wait for the normal lengthy processes of treaty negotiation.

We must make a dramatic new approach. It might be said that we need to do a more effective job of public relations vis-a-vis the governments of these countries than we have done or even tried to do thus far.

As a start in this direction, Mr. Johnston proposes:

The President of the United States might appoint a special envoy as his personal representative to visit and consult specifically on this matter with the heads of government and ranking officials of the several underdeveloped countries. (The President might prefer to name several such representatives—e. g., 1 for Latin American countries, 1 for African and middle eastern countries, 1 for Asiatic countries.)

The special envoy should be selected from the ranks of American business or industry—a recognized leader who is fully aware of the implications of United States economic policy, sympathetic to its aims, and conversant with the attitudes of American capital. His mission should be prefaced by an intensive study of the "investment climate" in the countries he would visit.

In his conversations in these countries, the special envoy would undertake to emphasize the importance which the United States, as a matter of its own self-interest, attaches to the sound and rapid economic development of all of the nations of the free world. He would state our national and international aims and motivations in the frankest terms, making it clear that our interest in promoting American investment abroad derives from our conviction that enlightened American capital can make a material and constructive contribution, technical as well as financial, to economic progress in other countries.

The special representative might find it helpful to explain how normal it is, under our system, for private enterprise to participate in the execution of public policy; and to emphasize our certainty that our self-interests and the self-interests of all nations in the free world are, in the long run, synonymous.

If he felt that preliminary conversations held sufficient promise, the special representative should be empowered to say that the Government of the United

States would be prepared, at the country's request, to send a special working party of American businessmen and Government experts to the country to carry the discussions further with a comparable group to be appointed by the Government of that country.

If this suggestion met with favor, the special representative would recommend that the Secretary of State appoint a special mission, composed of carefully chosen representatives of banking, industrial, and business interests, staffed by experts from the United States Government, and headed by an outstanding industrialist, preferably one familiar with the country concerned. The members of the mission should enjoy high diplomatic status.

The specific aim of each mission would be to explore practical ways and means of creating a more conducive climate for American investment. As the President implied, this is the crux of the whole problem of getting more American money to work abroad.

Sitting at the same table with businessmen and officials of the host country, United States industrialists composing the special mission would engage in a free exchange of views on expropriation risks, currency convertibility, tax and tariff discriminations, labor and social security requirements, and similar matters which create an unfavorable climate from the viewpoint of the American investor. Out of such a discussion, conducted with a serious purpose of finding mutually acceptable solutions, practical and constructive proposals might be expected.

Other useful results might also be anticipated. Many of the underdeveloped countries—Brazil, Pakistan, Iraq, to mention only a few—have embarked on comprehensive economic and social development programs. American industrialists on the special mission would be in a position to indicate points in these programs at which American private capital might be available to meet a particular need. They would be able to bring to bear upon the industrial problems of the host country some of the experience American industry has gained in decades of industrial pioneering around the globe.

Even more important, perhaps, the members of the mission would be able, upon their return to this country, to interpret and explain the problems which have led many of the underdeveloped countries to take an attitude apparently inimical to American capital.

Each mission would be expected to make a report to the Secretary of State, which could be circulated widely through the business community.

This proposal, in the final analysis, involves no more than an application of an old American custom in the time-tried tradition of talking things over. If we believe that a good deal of the present unfriendly "climate" in the underdeveloped countries is due to unreasonable fears or to misunderstanding of our aims and methods, the sensible thing to do is to try to put the thinking of those countries right. There is no better way of doing that than sitting down with them to talk matters out, freely, frankly, and in friendliness.

This approach would give American business a direct and important responsibility in trying to deal with what is essentially a business problem.

Simultaneously, of course, measures calculated to offer American capital greater incentives, greater security, and more specific information with respect to investment in the underdeveloped countries should be pressed by the various agencies concerned.

But the value of incentive measures will depend upon the extent to which we can improve the "climate" in those nations toward which our policy of encouraging constructive and beneficial private investment is directed.

An unmistakable and emphatic manifestation of our earnestness and goodwill might go a long way, in the opinion of this observer, toward creating the kind of "climate" we need.

3. *The Maffry report*

August Maffry, of the Irving Trust Co., in a report prepared for the Technical Cooperation Administration (Program for Increasing Private Investment in Foreign Countries, dated December 18, 1952), recommended:

(a) All agencies of Government concerned should join in an effort of total diplomacy directed toward improving the climate of investment in friendly foreign countries.

(b) The work of the Department of Commerce in assembling and disseminating information on investment conditions abroad should be continued and extended.

(c) The program of the Department of State for the conclusion of additional bilateral treaties containing assurances of fair treatment of American investors should proceed in regular course. The "screening" issue should not be allowed to block the conclusion of treaties which are otherwise satisfactory. [This refers to the policy of some countries of selective entry of foreign business enterprises.]

(d) The United States Government should assist in every way possible the efforts of individual private investors to obtain concessions from foreign countries with a view to getting them extended to other private investors.

(e) The dissemination of information on specific investment opportunities abroad is useful but should be concentrated in one agency and kept within the bounds consonant with the limited results to be obtained by this means.

(f) Industry advisers should be assigned without delay to key diplomatic missions.

(g) The Export-Import Bank should aggressively extend its activities by (1) providing loan capital on attractive terms to domestic corporations willing to extend their operations in foreign countries and (2) making loans to foreign corporations for economic development without the requirement of government guaranties.

(h) Every effort should be made by suasion and tangible inducements to secure the creation of international mutual funds, to induce the purchase of foreign securities by investment trusts and insurance companies, and in this way to assist in reestablishing a broad market in the United States for foreign securities.

(i) The competent committees of Congress should be fully informed regarding the elements of an investment-guaranty system which would effectively stimulate private investment abroad and be fully self-supporting. However, it should also be made clear to the Congress that there are alternative ways of accomplishing the same purpose, such as by extending the operations of the Export-Import Bank.

(j) The Treasury and the executive branch should decide promptly whether tax measures to stimulate foreign investment are to be recommended to the Congress. If so, the emphasis should be on measures designed to encourage investments abroad by individual and institutional investors through the purchase of foreign securities and on measures designed largely or exclusively to attract new investment rather than to give tax relief to existing investors.

In line with this principle, the partial tax exemption now accorded to Western Hemisphere trade corporations should be extended to qualified corporations operating anywhere in the free world, and tax inducements should be offered to individual and institutional purchasers of foreign securities.

(k) Government responsibility for promoting private investment abroad should be fixed at some point in the executive branch in order to secure coordination of the activities of various agencies concerned with different phases of the problem.

(l) TCA and MSA should contribute to the stimulation of private investment -

(1) By joining in the total diplomatic effort of the United States to improve investment climates in foreign countries;

(2) By promoting in every way possible the mobilization of local capital for productive investment;

(3) By identifying areas of private investment, especially in the industrial sphere, and assisting potential private investors to explore specific opportunities within these fields.

4. *The Sawyer report*

In his report to the President of the United States, Economic Survey of Europe (December 1952), the then Secretary of Commerce, Hon. Charles Sawyer, made a number of comments with respect to investment capital:

(a) Investment capital is a commodity which will go to the highest bidder. It will go to those countries which most desire it and which, accordingly, offer the most attractive possibilities. When appropriate conditions, or so-called good climate, prevail, investment will follow. These conditions include both political and economic stability.

(b) American businessmen still have the courage, initiative, industry, and the desire to make money which has characterized their pioneer efforts in the past both at home and abroad. They will not, however, move in force to other areas in the absence of a clear indication that they are wanted. American businessmen are not undertaking to force their way into any part of the world nor do they wish or intend to establish any sort of imperialism wherever they may go.

(c) In England it was suggested that one possibly fruitful area for exploration—assuming an attractive climate for investment—would be combined private-investment ventures in which British experience with some capital would be combined with United States capital and experience. There is, of course, no reason why such a project, if it meets with approval among private investors in the United States and other countries, should not be equally feasible and attractive as between the United States and any other country of Western Europe.

5. *The Bell report*

In a report to the President by the Public Advisory Board for Mutual Security, A Trade and Tariff Policy in the National Interest, submitted February 15, 1953, the Public Advisory Board stressed that—

(a) American investment abroad is a supplement to rather than a substitute for an increase in imports and that, if foreign investment is to be true investment, the United States must be willing to import on a sufficient scale to enable other countries to meet dividend, interest, and amortization requirements.

(b) The underdeveloped regions must accommodate their development programs to their needs. What is required is a balanced development—balanced between agriculture and industry, domestic financing, and in foreign investments. Such a policy will be possible only with more foreign capital for development.

(c) The United States should help and encourage the International Bank to extend its important operations in mobilizing private capital for international investment in development.

F. LEGISLATIVE

In addition, several legislative measures have been introduced during the present session of the Congress dealing with the subject:

1. *House Resolution 96 and Senate Resolution 25*

HOUSE RESOLUTION 96

(Introduced by Mr. Smith, Mississippi, January 16, 1953)

Resolved, That the Committee on Banking and Currency, or any duly authorized subcommittee thereof, is authorized and directed to make a thorough study of means and methods for increasing and expanding our international trade,

through the operations of the Export-Import Bank, the International Bank for Reconstruction and Development, and such other agencies and devices as would facilitate increasing American investment abroad and expanding international trade. The committee shall report to the House of Representatives at the earliest practicable date the results of its study, together with such recommendations as it may deem advisable.

(Also, S. Res. 25, a similar measure, relating to the Senate counterpart committee, introduced by Senator Capehart, January 7, 1953. This resolution was reported favorably by the Senate Committee on Banking and Currency on April 30, 1953. (See S. Rept. No. 208 and also S. Rept. 310, 83d Cong.))

2. S. 849

S. 849

(Introduced by Mr. Murray, February 10, 1953)

A BILL To encourage fuller participation by small business concerns in soundly expanded foreign trade through Government insurance for United States exports

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Export-Import Bank of Washington is authorized through a Foreign Trade Insurance Division, which is hereby created as a division within such bank, subject to the direction and control of such bank to insure and reinsure either directly or in participation with other insurers, payment of moneys due United States residents or partnerships or corporations organized under the laws of the United States or of any State, Territory, or possession from foreign debtors for the export sale of goods (including services and charges related thereto) to such foreign debtors.

Sec. 2. There is authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, a sum not to exceed \$300,000 for the administrative expenses of such Foreign Trade Insurance Division.

Sec. 3. In addition to the regular capital stock of the Export-Import Bank of Washington authorized under the Export-Import Bank Act of 1945, as amended, the said bank shall have an insurance capital stock of \$100,000,000 subscribed by the United States. The funds derived from such insurance capital stock shall be used solely to finance the insurance operations of the Foreign Trade Insurance Division. Such insurance capital stock shall be subject to call at any time in whole or in part by the Board of Directors of the bank. For the purpose of making payments of such insurance capital stock, the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purchase. Payment under this section of the subscription of the United States to the bank and repayments thereof shall be treated as public-debt transactions of the United States. Certificates evidencing stock ownership shall be issued by the bank to the President of the United States or to such other person or persons as he may designate from time to time, to the extent of the payments made for the insurance capital stock or the bank under this section.

Sec. 4. (a) It is the policy of Congress that the insured policyholder shall retain a substantial interest in the discharge by his foreign customer of the terms of the contract of sale. In insuring or reinsuring against the risk of nonpayment for any reason other than the imposition by a foreign government of exchange block or other regulation preventing the foreign purchaser from securing dollar exchange to pay his obligation, the insurance written by the Export-Import Bank of Washington shall not extend to more than 90 per centum of the total contract price.

(b) In insuring or reinsuring against the risk of nonpayment by reason of the imposition by a foreign government of exchange block or other exchange control preventing the foreign purchaser from transferring funds to the United States to make the payment due, the insurance written by the Export-Import Bank of Washington may extend to 100 per centum of the total contract price.

(c) As used in this section "contract price" shall include any insurance, freight, or other charge paid or to be paid by the exporter, and charges for services furnished by the exporter as an incident of the export sale.

Sec. 5. The total value outstanding at any one time of insurance issued by the Export-Import Bank of Washington as authorized under this Act shall not

exceed five times the amount of insurance capital stock authorized under section 3 of this Act.

SEC. 6. Subject to the limitations provided in sections 4 and 5 of this Act, the Export-Import Bank of Washington through its Foreign Trade Insurance Division shall from time to time determine the conditions under which it will extend insurance, either directly or in participation with other insurers, as authorized under this Act, and shall establish from time to time reasonable premiums to be charged for such insurance. It is the policy of the Congress that insurance or reasonable terms shall be made available to exporters of all the classes of commodities in United States exports on reasonable terms and as expeditiously as possible.

SEC. 7. The authority granted under this Act shall be in addition to and not in replacement of any authority granted to the Export-Import Bank of Washington.

SEC. 8. The Export-Import Bank of Washington shall include in its semi-annual report to Congress as required under the Export-Import Bank Act of 1945, as amended, a separate section giving a complete and detailed report of the operations of the Foreign Trade Insurance Division created by this Act.

SEC. 9. The Export-Import Bank of Washington shall, so far as practicable, maintain in the major export centers of the United States regional or district representatives who shall be qualified to advise exporters on its policies and practices.

SEC. 10. The manager of the Foreign Trade Insurance Division shall appoint an advisory committee composed of persons experienced in United States export policy and practice. The membership of the advisory committee shall, so far as practicable, be broadly representative of the various types of United States exporting concerns, large and small. The manager of the Foreign Trade Insurance Division shall consult with the advisory committee from time to time concerning the broad policies, programs, and insurance policy provisions of the Division.

SEC. 11. This Act may be cited as the "Export Insurance Act of 1951".

3. H. R. 4199

H. R. 4199

(Introduced by Mr. Meader, March 25, 1953)

A BILL To establish a Commission on Overseas Investment and Trade

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

FINDINGS AND DECLARATION OF PURPOSE

SECTION 1. The Congress finds that the dynamic competitive free-enterprise system which has flourished in the United States can raise standards of living and promote internal strength and stability in other free countries, thereby increasing their capacity to resist aggression, stimulating international trade, and contributing to the growth of free economic and political institutions. These goals can be achieved in large measure through encouraging and facilitating the investment of private capital in other free countries to develop their resources and improve their productivity. Numerous impediments now exist, however, which inhibit the investment of private capital and the conduct of trade and commerce throughout the free world. It is the purpose of this Act to discover ways to overcome these obstacles and make the fullest use of free private enterprise, subject to proper restraints to prevent overreaching and unfair exploitation, in promoting mutual security, economic vigor, and individual liberty in the free world.

ESTABLISHMENT OF COMMISSION; DUTIES

SEC. 2. (a) COMMISSION ESTABLISHED.—There is hereby established a bipartisan commission to be known as the Commission on Overseas Investment and Trade (in this Act referred to as the "Commission").

(b) DUTIES OF COMMISSION.—In conformity with the findings and in furtherance of the purpose declared in section 1, the Commission, after a complete study and investigation, shall formulate and recommend to the President and the Congress specific programs and policies calculated to encourage and facilitate the investment of private capital in free countries outside the United States, and the conduct of trade and commerce in such countries, and between such countries and other free countries, including the United States. The Commission shall give particular attention to developing programs and policies calculated to eliminate or minimize the restrictions, hazards, and other impediments, foreign and

domestic (including monopolistic and restrictive trade practices) which inhibit such investment, trade, and commerce, and to provide incentives for such investment, trade, and commerce.

MEMBERSHIP OF THE COMMISSION

SEC. 3. (a) NUMBER AND APPOINTMENT.—The Commission shall be composed of fourteen members as follows:

- (1) Ten appointed by the President of the United States, four from the executive branch of the Government and six from private life;
- (2) Two Members of the Senate appointed by the Vice President; and
- (3) Two Members of the House of Representatives appointed by the Speaker.

(b) POLITICAL AFFILIATION.—Of each class of members, not more than one-half shall be from each of the two major political parties.

(c) VACANCIES.—Any vacancy in the Commission shall not affect its powers, but shall be filled in the same manner in which the original appointment was made.

ORGANIZATION OF THE COMMISSION

SEC. 4. The Commission shall elect a Chairman and a Vice Chairman from among its members.

QUORUM

SEC. 5. Eight members of the Commission shall constitute a quorum.

COMPENSATION OF MEMBERS OF THE COMMISSION

SEC. 6. (a) MEMBERS OF CONGRESS.—Members of Congress who are members of the Commission shall serve without compensation in addition to that received for their services as Members of Congress; but they shall be reimbursed for travel, subsistence, and other necessary expenses incurred by them in the performance of the duties vested in the Commission.

(b) MEMBERS FROM THE EXECUTIVE BRANCH.—The members of the Commission who are in the executive branch of the Government shall each receive the compensation which he would receive if he were not a member of the Commission, plus such additional compensation, if any, as is necessary to make his aggregate salary \$12,500; and they shall be reimbursed for travel, subsistence, and other necessary expenses incurred by them in the performance of the duties vested in the Commission.

(c) MEMBERS FROM PRIVATE LIFE.—The members from private life shall each receive \$50 per diem when engaged in the performance of duties vested in the Commission, plus reimbursement for travel, subsistence, and other necessary expenses incurred by them in the performance of such duties.

STAFF OF THE COMMISSION

SEC. 7. The Commission shall have the power to appoint and fix the compensation of such personnel as it deems advisable, without regard to the provisions of the civil-service laws and the Classification Act of 1949, as amended.

CERTAIN LAWS INAPPLICABLE TO COMMISSION AND ITS STAFF

SEC. 8. The service of any person as a member of the Commission, the service of any other person with the Commission, and the employment of any person by the Commission, shall not be considered as service or employment bringing such person within the provisions of sections 281, 283, or 284 of title 18 of the United States Code, or of any other Federal law imposing restrictions, requirements, or penalties in relation to the employment of persons, the performance of services, or the payment or receipt of compensation in connection with any claim, proceeding, or matter involving the United States.

EXPENSES OF THE COMMISSION

SEC. 9. There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, so much as may be necessary to carry out the provisions of this Act.

POWERS OF THE COMMISSION

SEC. 10. (a) COMMITTEES.—The Commission may create such committees of its members with such powers and duties as may be delegated thereto.

(b) HEARINGS AND SESSIONS.—The Commission, or any committee thereof, may, for the purpose of carrying out the provisions of this Act, hold such hearings and sit and act at such times and places, and take such testimony, as the Commission or such committee may deem advisable. Any member of the Commission may administer oaths of affirmations to witnesses appearing before the Commission or before any committee thereof.

(c) OBTAINING OFFICIAL DATA.—The Commission, or any committee thereof, is authorized to secure directly from any executive department, bureau, agency, board, commission, office, independent establishment, or instrumentality information, suggestions, estimates, and statistics for the purpose of this Act; and each such department, bureau, agency, board, commission, office, establishment, or instrumentality is authorized and directed to furnish such information, suggestions, estimates, and statistics directly to the Commission, or any committee thereof, upon request made by the Chairman or Vice Chairman of the Commission or of the committee concerned.

(d) SUBPENA POWER.—The Commission, or any committee thereof, shall have power to require by subpena or otherwise the attendance of witnesses and the production of books, papers, and documents; to administer oaths; to take testimony; to have printing and binding done; and to make such expenditures as it deems advisable within the amount appropriated therefor. Subpenas shall be issued under the signature of the Chairman or Vice Chairman of the Commission or committee and shall be served by any person designated by them. The provisions of sections 102 to 104, inclusive, of the Revised Statutes (U. S. C., title 2, secs. 192-194), shall apply in the case of any failure of any witness to comply with any subpena or to testify when summoned under authority of this section.

EXPIRATION OF COMMISSION

SEC. 11. The Commission shall cease to exist on June 30, 1955.

4. H. R. 4465

H. R. 4465

(Introduced by Mr. Wolcott, April 2, 1953)

AN ACT To amend the Export-Import Bank Act of 1945, as amended

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 2 of the Export-Import Bank Act of 1945, as amended, is hereby amended by inserting the following as subsection (c):

“(c) (1) The Export-Import Bank of Washington is further authorized, in the manner and to the extent herein specified, to provide insurance in an aggregate amount not in excess of \$100,000,000 outstanding at any one time for the benefit of citizens of the United States, including corporations, partnerships, and associations organized and existing under the laws of the United States or any State, district, Territory, or possession thereof, against the risks of loss of or damage to tangible personal property of United States origin which is exported from the United States in commercial intercourse and is located in any friendly foreign country, to the extent that such loss or damage results from hostile or warlike action in time of peace or war, including civil war, revolution, rebellion, insurrection, or civil strife arising therefrom, or from an order of any government or public authority confiscating, expropriating or requisitioning such property and to the extent that such property is owned in whole or in part by the assured or constitutes security for financial obligations owed to the assured.

“(2) Insurance may be provided pursuant to this subsection only to the extent that it cannot be obtained on reasonable terms and conditions from companies authorized to do an insurance business in any State of the United States and to the extent that it cannot be obtained from any agency of the United States Government providing marine or air war-risk insurance.

“(3) In providing insurance pursuant to this subsection, the Bank may reinsure in whole or in part any company authorized to do an insurance business in any State of the United States or may employ any such company or group of companies to act as its underwriting agent in the issuance of such insurance and the adjustment of claims arising thereunder.

"(4) Subject to the limitations herein provided, the Bank shall from time to time determine the terms and conditions under which it will provide insurance pursuant to this subsection: *Provided, however*, That such insurance shall be based, insofar as practicable, upon consideration of the risk involved: *And provided further*, That the term of coverage of any such insurance shall not exceed one year, subject to renewal or extension from time to time for periods of not exceeding one year as may be determined by the Bank."

SEC. 2. Section 7 of the Export-Import Bank Act of 1945, as amended, is amended by substituting in lieu of the words "loans and guaranties" the words "loans, guaranties, and insurance."

(Approved by the President May 21, 1953 (Public Law No. 30).)

5. Senate Joint Resolution 78

S. J. Res. 78

(Introduced by Mr. Millikin, May 15, 1953)

JOINT RESOLUTION For the establishment of the Commission on Foreign Economic Policy

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That there is hereby established a bipartisan commission to be known as the Commission on Foreign Economic Policy (in this Act referred to as the "Commission").

MEMBERSHIP OF THE COMMISSION

SEC. 2. (a) NUMBER AND APPOINTMENT.—The Commission shall be composed of eleven members as follows:

- (1) Five appointed by the President of the United States, of whom no more than three shall be appointed from the executive branch of the Government;
- (2) Three appointed from the Senate by the Vice President of the United States;
- (3) Three appointed from the House of Representatives by the Speaker of the House of Representatives.

(b) POLITICAL AFFILIATION.—Of the first class of members mentioned in subsection (a), no more than three members shall be from the same political party. Of the second and third class of members mentioned in subsection (a), no more than two members from each class shall be from the same political party.

ORGANIZATION OF THE COMMISSION

SEC. 3. The Commission shall elect a Chairman and a Vice Chairman from among its members.

QUORUM

SEC. 4. Six members of the Commission shall constitute a quorum.

COMPENSATION OF MEMBERS OF THE COMMISSION

SEC. 5. (a) MEMBERS OF CONGRESS.—Members of Congress who are members of the Commission shall serve without compensation in addition to that received for their services as Members of Congress; but they shall be reimbursed for travel, subsistence, and other necessary expenses incurred by them in the performance of the duties vested in the Commission.

(b) MEMBERS FROM THE EXECUTIVE BRANCH.—The members of the Commission who are in the executive branch of the Government shall each receive the compensation which he would receive if he were not a member of the Commission, but they shall be reimbursed for travel, subsistence, and other necessary expenses incurred by them in the performance of the duties vested in the Commission.

(c) MEMBERS FROM PRIVATE LIFE.—The members from private life shall receive not to exceed \$75 per diem when engaged in the performance of duties vested in the Commission, plus reimbursement for travel, subsistence, and other necessary expenses incurred by them in the performance of such duties.

STAFF OF THE COMMISSION

SEC. 6. The Commission shall have power to appoint such personnel as it deems advisable, without regard to the civil-service laws, and to fix the compensation of such personnel in accordance with the Classification Act of 1949, as amended. The Commission is further authorized to employ experts and consultants for

temporary and intermittent personal services, but at rates not to exceed \$75 per diem for individuals. The Commission is authorized to reimburse employees, experts, and consultants for travel, subsistence, and other necessary expenses incurred by them in the performance of their official duties and to make reasonable advances to such persons for such purposes.

EXPENSES OF THE COMMISSION

SEC. 7. There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, so much as may be necessary to carry out the provisions of this Act.

REPORT—EXPIRATION OF THE COMMISSION

SEC. 8. (a) REPORT.—Within sixty days after the second session of the Eighty-third Congress is convened, the Commission shall make a report of its findings and recommendations to the Congress.

(b) EXPIRATION OF THE COMMISSION.—Ninety days after the submission to the Congress of the report provided for in subsection (a) of this section, the Commission shall cease to exist.

DUTIES OF THE COMMISSION

SEC. 9. The Commission is directed to examine, study, and report on the subject of international trade and to recommend policies, measures, and practices for stimulating its sound enlargement.

Without limiting the general scope of this direction, the work of the Commission shall include consideration of, and report, on the following matters:

- (1) (a) Applicable provisions of the Constitution of the United States;
- (b) Laws, regulations, and practices of the United States relating to international trade, including such matters as tariffs, customs, customs administration, trade agreements, peril point and escape procedures, opinions and decisions thereon of the United States Tariff Commission and the President, import and export quotas, monetary licenses, countervailing duties, and procurement preferences;
- (c) Departments, agencies, boards, commissions, bureaus, and other instrumentalities of the United States having jurisdiction over, or dealing with, these matters;
- (d) Laws, regulations, and practices and official instrumentalities of other nations concerned with similar subject matters;
- (e) Pertinent statistics on international trade;
- (f) Balance of payments, nation by nation, excessive imbalances, causes, effects, proposed remedies.
- (2) Relationship of our foreign economic policies to, and their influences on, our total foreign policy, proper relationship of each to the other.
- (3) Effect of our foreign aid and military defense programs on international trade and international balance of payments.
- (4) Foreign markets of trading nations—extent and nature—effect thereon of wars, other emergencies, technological advances, international relations, and other pertinent factors.
- (5) International instrumentalities, organizations, agreements and practices affecting trade such as General Agreement on Tariffs and Trade, Customs unions, Organization for European Economic Cooperation, International Wheat Agreement, cartels, European Payments Union, European Coal and Steel Community, International Monetary Fund.
- (6) Foreign investment capital, flow of investment capital between nations—need thereof—restrictions thereon—inducements necessary to encourage, role of Export-Import Bank and International Bank for Reconstruction and Development.
- (7) Effects on international trade of factors such as costs of production and pricing, labor practices and standards, general living standards, currency manipulation, inconvertible currencies, official inflationary policies, currency devaluations, exchange controls and licenses, quotas, embargoes, dumping and pricing practices, multiple currencies, bilateral trade agreements, barter arrangements, customs procedures, marking and transit problems, concealed regulation of exports and imports, preferential tariff systems, most-favored nation treatment, government monopolies, State-controlled economies, State trading, State-subsidized trading.
- (8) Effect of existing and proposed trade policies on promotion of peace and security and betterment of political, social, and economic life.

POWERS OF THE COMMISSION

SEC. 10. (a) The Commission or, on the authorization of the Commission, any subcommittee or member thereof, shall have power to hold hearings and to sit and act at such places and times, to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, and to make such lawful expenditures, as the Commission or such subcommittee or member may deem advisable. Subpenas shall be issued under the signature of the Chairman of the Commission and shall be served by any person designated by him.

(b) The Commission is authorized to secure from any department, agency, or independent instrumentality of the Government any information it deems necessary to carry out its functions under this Act; and each such department, agency, and instrumentality is authorized and directed to furnish such information to the Commission, upon request made by the Chairman or by the Vice Chairman when acting as Chairman.

(Passed the Senate, without amendment, on May 19, 1953.)

G. PRIVATE BUSINESS

During its hearings on foreign economic policy, the subcommittee took testimony from many of the private agencies who have been actively interested in the problems of stimulating the flow of private American capital abroad. These agencies, because of their firsthand knowledge and vast experience in the field, have much to contribute. The subcommittee includes at this point some of the recommendations previously made by some of these organizations.

1. *Commerce and Industry Association of New York*

The association recommends (World Trade Bulletin of the Commerce and Industry Association of New York, February 9, 1953):

(a) Defer income from foreign operations of domestic corporations from United States taxation until the proceeds of operation are remitted to this country.

(b) Eliminate the dual ("per country" and overall) foreign tax credit limitation in favor of a single limitation. The association is inclined to favor elimination of the "per country" limitation and retention of overall limitation.

(c) Restore the principle of a complete surtax exemption for Western Hemisphere trade corporations.

(d) Extend the treatment of Western Hemisphere trade corporations to corporations doing business in foreign countries.

2. *The National Foreign Trade Council*

The Council recommends (Final Declaration of the 39th National Foreign Trade Convention, New York, November 1952):

(a) That our Government should make it clear that it regards foreign economic development as the function of private enterprise; that it will rely on private enterprise for the accomplishment of the economic aims our national interests require, and that it will seek, by every feasible means, to broaden and extend the opportunities available to private enterprise in all fields of international endeavor.

(b) That our Government exert itself to the utmost in securing the creation of conditions, both here and abroad, which are conducive to the investment of private capital and to the attraction of its attendant resources, skills and techniques.

(c) That our Government should pursue a vigorous program looking toward the conclusion of treaties of friendship, commerce and economic development, tax treaties, and other agreements conducive to laying the groundwork for the creation of environments abroad favorable to the investment of private capital.

(d) That our Government make clear, by word and action, that American public funds will not be available for projects which, under proper conditions, could be financed by private capital.

(e) Adoption of the principle that business income should be taxed only in the country in which it is earned. Until this principle has been made fully

effective as an integral part of the United States tax policy, the convention urges that Congress adopt all feasible interim measures to minimize the burden of the United States income tax on American business operating abroad. A useful measure to this end would be to apply to all business income arising from a foreign source, including income derived from foreign subsidiaries, the tax rate now available to Western Hemisphere trade corporations, and to eliminate the "per country" limitation in the computation of foreign tax credits.

(f) Disapproval of the proposal for the creation of an international finance corporation, whether as an affiliate of the International Bank for Reconstruction and Development or otherwise.

3. *National Association of Manufacturers*

The board of directors recommends (Policy Statement on Foreign Investment, approved by the board of directors, October 30, 1952):

(a) Efforts should be continued to extend the network of bilateral treaties providing for equitable and nondiscriminatory treatment of foreign investment on a basis of equality with domestic investment, for opportunities for the remittance of earnings and the repatriation of capital, and for prompt, complete, and effective compensation in the event of expropriation.

(b) Efforts should also be accelerated for the elimination of double, extra-territorial and discriminatory taxation of American citizens and business enterprises through internal legislation and international treaties and assuring competitive equality in foreign countries from a tax viewpoint.

(c) That the policy of United States lending agencies, as well as the policy of the United States in international financial agencies in which it participates, should make clear that public funds should be available only in limited amounts and only in the fields of basic productive works. Only in rare instances, unattractive to private capital, where some United States strategic interest is clearly paramount, should public funds be used to finance investment in manufacturing or mineral industries.

4. *Detroit Board of Commerce*

The board recommends (A Statement of Policy on United States Foreign Trade and Foreign Aid Policies, approved by the Detroit Board of Commerce and announced in the November 1952 issue of Inside Michigan magazine):

(a) That appropriate tax inducements be given to firms and individuals investing their capital abroad—for example, accelerated amortization * * * and the adoption of suitable legislation freeing all private United States overseas investments from taxation when profits are returned to the United States.

(b) That a system of broad guaranties be available covering risks of loss from nonconvertible currencies, confiscation, riot, revolution, war or any act of any foreign government in which an American investment is located that would preclude the continuation of business upon the sound principles of private enterprise.

(c) Believes there is also a semigovernmental field for action along the lines developed by such organizations as the International Bank for Reconstruction and Development, and the Export-Import Bank.

(d) Believes that much more can be done in encouraging private enterprise to extend its investment to less developed areas of the world * * *. Industry and Government must go hand in hand if our leadership in world affairs is to be successful.

V. DEPARTMENT OF STATE

A. COMMERCIAL TREATIES

1. *General assurances*

The mandate of section 516 (d) with respect to commercial treaties refers to the executive branch program of negotiating modern treaties of friendship, commerce, and navigation containing provisions to assure the security of economic enterprises operating in foreign countries. In general, these treaties secure for United States investors

assurances of nondiscriminatory, reasonable, fair, and equitable treatment no less favorable than that accorded nationals of the foreign country or of third countries. Such assurances include reasonable freedom to operate, control, and manage enterprises; prompt, adequate, and effective compensation in the event of expropriation of the investor's property; the withdrawal of earnings and reasonable amounts of the principal of an investment; absence of tax discrimination against foreign investors; and other assurances important to the private investor.

2. Recent negotiations

During the past year the Department of State has carried on FCN² treaty negotiations with several countries, particularly India, Egypt, and Japan. A treaty was signed on April 2, 1953, with Japan, and the negotiations with the other two countries—Egypt and India—give promise of early results. During the summer of 1952 the Chief of the State Department's Economic Treaties Branch visited India and Japan to assist our Embassy offices in their negotiations with representatives of these two countries. At the same time, preliminary discussions have taken place with several other countries, including Ecuador, Pakistan, Haiti, Afghanistan, Peru, and Turkey. In addition formal negotiations are under way with Australia and are scheduled to commence with Paraguay in the near future.

In addition, modern FCN treaties are in effect with the Republic of China (1946), Ireland (1950), and Italy (1948). A treaty concluded with Uruguay in 1949, which received the United States Senate's consent to ratification in 1950, is awaiting action by the Uruguayan Legislature authorizing ratification by that country. This treaty is considered the model in the field.

3. Hearings before Senate Foreign Relations Committee

In May 1952, during the second session of the 82d Congress, hearings were held before a subcommittee of the Senate Foreign Relations Committee concerning the ratification of six FCN treaties previously signed—with Colombia, Denmark, Greece, Israel, Ethiopia, and a supplementary agreement with Italy. (The latter brings the 1948 treaty up to date, particularly the provisions relating to the encouragement of private capital investment.) At the hearings it developed that there was sentiment adverse to continuance of the long-standing treaty policy of according national treatment with respect to the practice of professions, which was embodied in the provisions of several of the treaties before the Senate. (The provision in question provides that "nationals of either party shall not be barred from practicing the professions within the territories of the other party merely by reason of their alienage; but they shall be permitted to engage in professional activities therein upon compliance with the requirements regarding qualifications, residence, and competence that are applicable to nationals of such other party.") The committee did not make a final decision on the policy in question and accordingly the treaties and supplementary agreement were passed over to the present session of the 83d Congress.

² The initials "FCN" will henceforth be used in reference to recent treaties variously entitled treaties of "Friendship, Commerce, and Navigation," "Friendship, Commerce, and Economic Development," or "Amity and Economic Relations."

4. *Impetus of treaties on future negotiations*

The impetus which resulted from the conclusion of six treaties in 1951 has stimulated the program of FCN treaty negotiations, although the delay in the Senate's advice and consent to their ratification has retarded the functioning of the program. The Department has purposely concentrated attention upon certain countries, where the successful conclusion of a treaty might have considerable influence upon other countries in the area. The signing of an FCN treaty with India, for example, should provide a significant stimulus for the treaty program elsewhere in Asia; likewise, an Egyptian treaty should affect the receptivity of the other Arab countries to treaty proposals.

5. *Establishing the proper climate*

An FCN treaty is an important element in establishing the proper "climate" abroad for United States private investment. This is the basis of its emphasis in section 516 (d) of the Mutual Security Act. Not only is it a public pronouncement of policy toward United States investors, but also a legal basis for business and commercial relations between the two countries. In some cases the treaty is little more than a formal expression of existing policies, which, nevertheless, provides assurances against adverse changes over a long period. However, in other cases, the treaty negotiations are resulting in substantial changes in foreign legislation and administrative practices designed to attract foreign capital.

6. *Limitations*

There are limitations upon what can be accomplished through treaties of this kind. Many of the important impediments to the international flow of private capital are outside the control of particular countries, or are inherent in the factors of distance, lack of knowledge, and competitive conditions in third countries such as the United States and Canada, or are otherwise not amenable to treatment through the treaty process. Recent events in Bolivia and Iran, for example, tend to deter foreign investment generally—particularly elsewhere in South America and the Middle East. However, the Department of State states that it will press forward with its FCN treaty program, and will stress its importance in the context of United States foreign economic-development objectives. In countries where we are extending economic or technical assistance, either in the form of grants or loans, the objectives of the treaty program will be related to the objectives of the assistance in terms of overall United States policy interests. More specifically, United States economic or technical-assistance missions, where they exist, will be utilized to the maximum extent feasible in furthering the treaty program.

7. *Temporary arrangements*

Section 516 (d) refers also to "temporary arrangements", where more suitable or expeditious. So far the Department of State has not entered into such arrangements. As viewed by the Department, this effort is primarily important in terms of its long-run effects, where progress must be based upon a genuine desire on the part of the foreign country for increased foreign investment. Hence, temporary arrangements can be misleading, and are to be considered with caution. Moreover, it is precisely the provisions for encouraging and facilitating the flow of private investment that usually cause the

most difficulty in treaty negotiations. These provisions are nonetheless considered as the most significant sections of the FCN treaties, and in at least one case negotiations are now proceeding on the basis of agreement to delete certain important articles not relating directly to investment because disagreement on them threatened to stalemate a treaty otherwise considered very desirable. Thus, the possibility of treaties or other arrangements limited to the investment and related provisions is by no means precluded at the present time.

8. *Field instructions*

The Department of State has recently instructed all of its diplomatic missions abroad (except those in the U. S. S. R. and its satellites) to reexamine, jointly with TCA and MSA missions, the possibility of concluding an FCN treaty with the country in which they are located. The instruction asks the missions to discuss the matter informally with appropriate Government officials and local businessmen, stressing the importance of encouraging foreign private investment and of offering reasonable assurances to investors such as those normally contained in FCN treaties.

B. DEPARTMENT OF COMMERCE STUDY

It should be noted that section 516 (d) requests the Department of State to take into account the study and recommendations of the Department of Commerce pursuant to section 516 (c). This study has not yet been completed. (A discussion of the project will be found on pp. 51-53.) The Department of State states that it intends to give that study the careful attention and consideration that it deserves, and will take its recommendations into account in connection with the treaty program discussed above. The Department of State was consulted with respect to the organization of the study, and later detailed an officer temporarily to the Department of Commerce to work on certain sections of the report. The Department has also supplied material on specific subjects as requested by Commerce, and is reviewing many sections of the report, particularly the series of country studies.

C. ACCOMPLISHMENTS

Favorable measures have been taken by certain countries to stimulate foreign investment. Some of them have resulted from the FCN bilateral agreements and some, undoubtedly spurred on by the impact which such a treaty in one country has upon the general area, have been taken unilaterally by the countries themselves. Illustrative are the following:

1. *Republic of China*

In November 1946 a treaty of friendship, commerce, and navigation was signed with the United States by the Chinese Nationalist Government and entered into force 2 years later. On June 25, 1952, an exchange of notes took place under the MSA investment guarantee program whereby American investors can be guaranteed against risks of loss resulting from inconvertibility of local currency earnings and from nationalization or expropriation. In October 1952, the Government on Formosa took measures to encourage foreign investment in productive enterprise by regulating the importation of capital goods

and raw materials for new industries, and offering guaranties for the remittance of profits and amortization of capital.

2. Colombia

In the course of the past 3 years the Colombian Government has taken a series of steps to encourage foreign private investments with striking results. Foreign investments have increased not only in the field of extractive industries but most notably in manufacturing and other fields as well. The first of these measures was the promulgation of a decree in November 1950 amending petroleum laws and removing obstacles to further exploratory activities of foreign oil companies. On March 6, 1951 a census of foreign capital investments was initiated to enable all foreign investors to clarify and establish the legality of their capital importations. In the following month of April a treaty of friendship, commerce, and navigation was signed with the United States (not yet in force). In the period August 3, 1951, through July 13, 1952, various laws and decrees were issued clarifying and liberalizing foreign-exchange restrictions to encourage foreign investment. In March of this year, a decree was issued to encourage investment in power development.

3. Egypt

With the advent of the new Egyptian Government, a rapid series of measures and policy proclamations was introduced reversing previous trends and promising a more favorable climate to foreign investment. To correct one of the most unsatisfactory legal provisions for foreign enterprise, a decree was promulgated on August 4, 1952, amending Egyptian company law by reducing the minimum Egyptian participation required in joint-stock companies from 51 to 49 percent, and there is now under consideration a draft decree which if promulgated would reduce this requirement still further to 40 percent. This was followed up in February 1953 by a second decree eliminating an old provision that oil and mineral leases could be granted only to Egyptian companies. And it was reported in March that a set of regulations has been approved providing for the orderly repatriation of profits and capital of foreign enterprises. Negotiations are currently in progress with the United States on a treaty of friendship, commerce, and navigation.

4. Ethiopia

In July 1950 the Government of Ethiopia issued a statement of policy setting forth that new enterprise would be free from profits tax for 5 years, that necessary machinery imports would be free from customs duties, and that generally the Government would not require participation of Ethiopian capital in new enterprises, although it would require such participation in special cases. To further encourage the expansion of old and the establishment of new enterprises, both industrial and agricultural, there was established in March 1951, with assistance of the International Bank for Reconstruction and Development, the Development Bank of Ethiopia. And in September of the same year a treaty of amity and economic relations was signed with the United States. (This treaty, the first of its kind, is an abridged version of the standard FCN treaty, developed with specific reference to the requirements of Ethiopia. It is not yet in force.)

5. Japan

Having regained its full sovereignty the Government of Japan has continued to encourage private foreign participation in its economic development. In particular, it resumed service on its prewar debts to American and British investors during 1952. In September a new law was enacted liberalizing regulations on the repatriation of capital and switching of investments, and providing protection of foreign investors in new security issues affecting equity rights. An FCN treaty was signed with Japan on April 2, 1953, and is awaiting ratification.

6. Israel

From the beginning the Government of Israel pursued policies to encourage the establishment of private enterprise, and gave early recognition to the importance of foreign private participation in the development of its economy. In mid-1949 investors were granted a number of tax reliefs and other facilities incorporated in the law for the encouragement of capital investments enacted the following April. This law among other things established an investment center to encourage and expedite approved investment, foreign as well as local, in priority fields of development. It also provided certain privileges and benefits to such investments, relating to transfer of dividends, profits, and interest into foreign exchange, relief from certain taxes and excises, and other inducements to investment. These measures were followed by the signature on August 23, 1951, of a treaty of friendship, commerce, and navigation (not yet in effect), and later by an agreement with the United States under the investment guaranty program whereby MSA can guarantee American investors against risks of loss from expropriation and the inconvertibility of local currency earnings. In August 1952 a law was passed for the purpose of promoting petroleum development, open to participation by foreign enterprise, as well as local.

7. The Netherlands

Recognizing shortly after the war the need for attracting foreign private capital and other resources to participate in revamping and modernizing its industries and in establishing new enterprise, a special section was established in the Directorate-General for Industrialization to act as central point of contact with the Government for foreign enterprise. Parallel to this, and established at the instigation of the Ministry of Economics, is a private organization, the Institute for Netherlands-American Industrial Cooperation, which has a branch office in New York. Together these agencies have been highly successful in encouraging the establishment of more favorable laws to foreign investment, in cutting redtape and expediting license approvals to establish new businesses, preparing basic surveys on investment opportunities and in gaining the attention and consideration of these opportunities by the American business community. The Netherlands has never defaulted on its dollar bonds; in fact, it marketed a \$20,000,000 issue in 1947 on which it has maintained full service. A treaty for the avoidance of double taxation is in effect between the Netherlands and the United States, as is an agreement under the investment guaranty program. The Netherlands has expressed interest in a friendship, commerce, and navigation treaty; however, negotiations have not yet begun.

8. *Pakistan*

Since its inception the Pakistan Government has steadily pursued a policy of encouragement to the establishment of private industry, foreign and local. An industrial finance corporation has been established to provide low-interest loans to expand existing industry and an industrial development corporation is organized to participate with private capital where desired as an incentive to the establishment of new industries of importance in the development of the economy. It has also established a research institute to assist private enterprise in its operations. Among other things it has reduced import duties on capital equipment and given concessions in the matter of depreciation for the purpose of tax reduction. It pursues a protective tariff policy with regard to new and nascent industries.

9. *Southern Rhodesia*

The Government of Southern Rhodesia is actively interested in attracting investors, and foreign enterprise generally enjoys the same benefits, rights, and privileges as local enterprise. Foreign capital accepted for approved investment can be repatriated, if desired, together with any bona fide capital accretion accrued. Legitimate profits, dividends, and interest from all types of dollar investment are automatically remittable without limitation. There are no restrictions on management or directorship of an enterprise. The Government stands ready to give advice and encouragement and, in certain cases, assistance through suspension of the customs tariff, but fundamentally it believes in creating the basic favorable conditions, leaving the rest to private enterprise and initiative. For instance, not with the object of displacing private enterprise, but for the purpose of laying the basis for encouraging and increasing the range and number of fabricating concerns by private enterprise, the State undertook to develop iron and steel production. To promote the textile industry an experimental cotton mill was established. In these cases the State has been prepared not only to sell its products to private enterprise but also to admit private capital to partnership, even to sell the enterprise to private interests after the feasibility of the project has been proved. Through public policy pronouncements, printing and dissemination of attractive brochures on opportunities for investment in Southern Rhodesia, and other means, the Government has tried to make abundantly clear that foreign (and especially American) participation is welcome in the development of its growing economy.

10. *Peru*

Beginning in 1949, the new Government of Peru initiated an energetic policy of encouragement to private foreign and local enterprise. Changes in fiscal and monetary policies were introduced to stabilize the currency. A "hands off" policy toward private business was proclaimed and has been implemented since. An "open door" policy was presented to foreign enterprise, with particularly strong incentives to the development of Peru's natural resources by the promulgation of a new mining code in May 1950 and by the enactment of a new petroleum law which went into operation in October of last year. Both have proved highly successful in attracting new foreign investments. Since the end of 1951 a series of tariff measures have also been introduced to encourage investment in new industries. Negotiations with

the Foreign Bondholders Protective Council for the readjustment of service on Peruvian dollar bonds resulted in a formal offer to bondholders in January 1953.

11. Turkey

In mid-1951 a law was passed by the Turkish Parliament to promote foreign capital investments, which among other things guaranteed the export of annual profits, interest, and dividends up to 10 percent of the capital invested, set forth provisions on the withdrawal of capital, and simplified procedures for establishing a business. Since then the Turkish Government has moved steadily in the direction of encouraging private enterprise and shown growing recognition of the importance of foreign private participation in the development of its economy. Under the sponsorship of the International Bank, an industrial development bank was established to encourage private industrial development and individual security ownership. And in November 1952 a decree was promulgated announcing the desire of the Government to push the development and exploitation of its oil resources by utilizing foreign technical advice and encouraging the participation of foreign capital. An agreement with the United States has been concluded under the investment and guaranty program, covering the risk of loss from inability to convert local currency earnings into dollars.

12. Venezuela

Foreign enterprise enjoys a favorable climate for investment in Venezuela; generally speaking, it has the same benefits, rights, and privileges as local enterprise. The Venezuelan Constitution provides that property or rights may only be expropriated in the public or social interest, with prior indemnity and due legal hearings. For over a decade the Government has found it unnecessary to resort to restrictions on the transfer of funds abroad. The development of petroleum and mineral resources has gone forward under progressive laws and regulations. Government supervision over business operations has been at a minimum. To further the objective of creating a diversification of industry, thus reducing the country's dependence on oil, the Government grants additional protection to national industry by the imposition of higher duty rates on certain commodities and by the exoneration of import duties on installations, equipment and raw materials in the establishment of new local industries.

VI. MUTUAL SECURITY AGENCY (MSA)

A. REQUIREMENTS OF SECTION 516 (B)

Through the MSA investment guaranty program, the United States Government offers, for a fee, a form of insurance protection to new American investments abroad against the risks of currency inconvertibility and loss through confiscation or expropriation. Protection against currency inconvertibility was authorized by the Economic Cooperation Act of 1948. Protection against confiscation and expropriation was authorized by the Economic Cooperation Act of 1950 and made available in June 1951. All of the countries for which aid is authorized by the Mutual Security Act of 1951, as amended, are eligible to participate in the program.

Section 516 (b) of the act stresses the importance of a greater participation by private capital in the investment guaranty program. This responsibility is placed in the Mutual Security Agency. It is obviously impossible to compel American business to participate in the guaranty program. But it is the job of MSA to develop broad criteria, to render the requirements less onerous—in short, to make it as easy as possible to get a guaranty, consistent with the purpose and objectives of the particular country's Mutual Security Program. It will be noted that section 516 (b) requires the Mutual Security Agency to cooperate with private business groups to the fullest extent possible in this whole process.

B. INDUSTRIAL GUARANTIES ISSUED

Through March 31, 1953, a total of 46 industrial guaranties in the amount of \$39,618,248 had been issued under section 111 (b) (3) of the Economic Cooperation Act of 1948, as amended, for investment in European countries and Turkey. Of these, 43 guaranties in the amount of \$38,044,017 covered the risk of inconvertibility of foreign currency receipts (including 2 forward contracting guaranties in the amount of \$1,504,000) and 3 guaranties in the amount of \$1,574,231 covered the risk of loss through expropriation or confiscation. As of March 31, 1953, there were pending 52 completed applications for convertibility guaranties in the approximate amount of \$41,000,000 and 21 applications for expropriation guaranties in the approximate amount of \$17,000,000. Guaranties have been issued to protect new investments in a variety of manufacturing industries in England, France, the Netherlands, Germany, Italy, and Turkey; in two construction engineering firms in France, an agricultural project in Italy, and a pharmaceutical plant in Turkey. No disbursements have been made pursuant to contracts issued and through March 1953 fees in the amount of \$700,000 had been received.

C. BILATERAL AGREEMENTS

All the former Marshall-plan countries have agreed, through a provision in the ECA bilateral agreements, to participate in the guaranty program and, except for Turkey, the United Kingdom, and Portugal, all those countries for which there has been any United States investor interest in guaranties have given the necessary assurances with respect to treatment to be accorded currency acquired by the United States Government upon the invocation of convertibility guaranties and the treatment of claims to which the United States Government may become subrogated when expropriation guaranties are called upon. This group consists of Austria, Belgium, Denmark, France, Germany, Greece, Italy, the Netherlands, and Norway. Turkey and the United Kingdom have given the necessary assurances with respect to convertibility guaranties only; no assurances have been obtained from Portugal, although an agreement is expected to be signed by Portugal shortly. In addition to the former Marshall plan countries listed above, agreements covering both convertibility and expropriation guaranties have been concluded with China (Formosa), Haiti, Israel, the Philippines, and Yugoslavia. Negotiations are in process with a number of other countries.

Countries with which agreements for the guaranty program have been signed through April 1953

Country	Kind of guaranty covered	Country	Kind of guaranty covered
Austria	Convertibility, expropriation.	Italy	Convertibility, expropriation.
Belgium	Do.	The Netherlands	Do.
China (Formosa)	Do.	Norway	Do.
Denmark	Do.	Philippines	Do.
France	Do.	Turkey	Convertibility.
Germany (Federal Republic)	Do.	United Kingdom	Do.
Greece	Do.	Yugoslavia	Convertibility, expropriation.
Haiti	Do.		
Israel	Do.		

D. MUTUAL SECURITY AGENCY DESCRIPTIVE RELEASE

A statement describing the guaranty program and the broadening of its program coverage resulting from the Mutual Security Act of 1952 was prepared and, after clearance by other interested agencies, released to the press on June 19, 1952. This release contained a statement to the effect that the guaranties staff is prepared to initiate negotiations for guaranty agreements with all countries eligible to participate in the program but not yet participants, either as investor interest developed or as individual countries indicated a desire to participate. As a result of the release, the guaranty program received publicity in both general news publications and business publications and a considerable number of inquiries were received from prospective investors. Interest in the possible guaranty of investment in Latin American countries was particularly prominent. By early September 1952, some 100 inquiries indicating investor interest in various Latin American countries had been received.

E. LATIN AMERICA

On the basis of the expressed intent of the Congress that the guaranty program should be vigorously prosecuted, and the apparent widespread investor interest, discussions were begun with respect to initiating negotiations with Latin American countries. A message dated October 2, 1952, was sent by the State Department to American diplomatic officers in the Latin American capitals describing the guaranty program and asking for expressions of opinion as to the appropriateness of attempting to initiate the program in the several countries. Identical memoranda dated October 20, 1952 were given by the State Department to the diplomatic representatives in Washington of seven countries. These memoranda described the guaranty program and asked whether the governments approached would be agreeable to entering into discussions looking toward the initiation of the program in their countries. Thus far, only one has responded; it has opened discussions on the initiation of the program in that country. The possibility of instituting the program in Mexico was discussed with representatives of the Mexican Government who stated that, although interested in encouraging United States investment, they did not feel a need for the guaranty program; they were also concerned about complications raised by provisions of the Mexican Constitution. It is apparent, therefore, that extension of the program to Latin America

has made but little progress as yet. The first guaranty agreement with a Latin American country was signed recently with Haiti, which may arouse interest in the program on the part of other governments in the area.

F. WEAKNESSES IN EXISTING LAW

1. Time factors

Dr. D. A. Fitzgerald, Associate Deputy Director of the Mutual Security Agency, in his testimony before the subcommittee pointed out two time-factor weaknesses in existing legislation:

At the present time the authority to write guaranties exists only through June 1954. It usually takes anywhere from 6 months to a year from the time of application for a guaranty to its issuance, depending on the progress made in negotiating the investment arrangements. We will be coming up against a deadline fairly soon on our negotiating range unless the Congress sees fit or feels it proper and appropriate to extend the period during which these guaranties can be written. The present legislation likewise provides that the duration of the guaranties themselves cannot run beyond April 2, 1962. In some instances we have had inquiries on the part of investors for more forward coverage. Some suggestions have been made that it might be desirable to go as far as 25 years from the date of issuance, rather than put a specific date of April 2, 1962, or any other specific date in the legislation.

It has therefore been recommended that these weaknesses should be eliminated from the mutual security legislation and that authority to write guaranties should be extended beyond the present legislative deadline of June 1954. Accordingly, the executive branch recommends the enactment of section 607 (a), contained in the draft bill on the Mutual Security Program for the fiscal year 1954, amending section 111 (b) (3) of the ECA Act, as follows (amending language shown in italics and deleting language shown in brackets):

(3) by making, under rules and regulations to be prescribed by the Administrator, guaranties * * * ~~which guaranties shall terminate not later than fourteen years from the date of enactment of this Act~~ *which guaranties shall be limited to terms not exceeding twenty years from the date of issuance: Provided, * * ** That

2. Need for broader coverage

The Mutual Security Agency has informed the subcommittee that discussions with guaranty applicants have demonstrated the need for complete coverage of the risks of war, revolution, and civil disorder. Further, MSA has been advised by a number of private individuals and groups that the risks of war and revolution are important deterrents, and must be among the insurable risks in an effective system against risks peculiar to foreign investment (e. g. MSA Advisory Committee on Guaranty Policy chaired by Thomas H. McKittrick, senior vice president, Chase National Bank; recommendations to TCA by August Maffry, vice president, Irving Trust Co.). To this end, section 607 (b) of the draft bill on the Mutual Security Program for fiscal year 1954 made available by the executive branch, would amend section 111 (b) (3) (v) of the Economic Cooperation Act as follows (amending language shown in italics):

(v) the guaranty to any person shall be limited to assuring one or both of the following: * * * (2) the compensation in United States dollars for loss of all or any part of the investment in the approved project which shall be found by the Administrator to have been lost to such person by reason of expropriation or confiscation by action of the government of a participating country *or by reason of war, revolution, or civil disorder.*

It is hoped that the proposed legislative amendment will cure a defect in existing law which will offset certain of the more prominent foreign risks impeding the flow of American capital abroad.

G. REMAINING FUNDS FOR NEW USES

Funds remaining for new uses for the guaranty of investments and informational media (excluding applications received for Latin American countries for which no funds have been set aside) may be estimated at approximately \$92,600,000. The statutory authorization of \$200 million, together with some \$700,000 of fees collected under the investment guaranty program, constitute the gross amount available for guaranties. Presently outstanding liabilities against the guaranty fund total \$39,300,000 and payments (all under informational media guaranties) total \$7,600,000, leaving \$153,800,000 uncommitted. Roughly, \$61,200,000 (including \$8 million for informational media guaranties) should be earmarked for pending applications; some of these may be expected to be dropped, but the total amount will probably be maintained by currently developing applications. Since the program is not operative in Latin America (except Haiti), most prospective investors who have indicated an interest in that area have not developed their proposals with the guaranties staff to the point of stating the value of the investments contemplated. However, it is possible to identify some \$35 million of proposed investment in Latin America; had MSA accepted applications for current processing, it is believed that that figure would be substantially larger and the amount of funds remaining for new uses correspondingly reduced.

H. TABULATION OF GUARANTIES ISSUED AND PENDING

1. Industrial investment guaranties issued, cumulative Apr. 3, 1948-Dec. 31, 1952¹

	Total	Italy	Germany (Federal Republic)	France	Netherlands	Turkey	United Kingdom
Total industrial guaranties issued	\$39,567,248	\$20,887,300	\$3,634,931	\$4,537,489	\$175,000	\$2,808,313	\$7,524,215
Industrial investments	38,513,248	20,887,300	3,634,931	3,483,489	175,000	2,808,313	7,524,215
Manufacturing projects	37,960,248	20,799,800	3,634,931	3,017,989	175,000	2,808,313	7,524,215
Petroleum refining	19,117,500	19,117,500					
California Texas (Caltex)	4,630,000	4,630,000					
Standard Oil Co. (New Jersey)	14,487,500	14,487,500					
Chemicals	8,205,313	1,602,000		300,000		2,808,313	3,495,000
Boiler compounds (National Aluminate Corp.) ²	1,602,000	1,602,000					2,025,000
Carbon black (Godfrey L. Cabot)	2,025,000						1,470,000
Medicinal and pharmaceutical preparations	4,578,313			300,000		2,808,313	735,000
Parke-Davis & Co.	735,000					2,711,450	735,000
E. R. Squibb & Sons	3,446,450					96,863	
Charles Lockton	96,863						
Heyden Chemical Co.	300,000			300,000			
Machinery and equipment	3,907,965		140,000	1,121,500			2,646,465
Earth-moving equipment (Euclid Road Machinery)	857,500						857,500
Sewing-machine parts (Singer Manufacturing)	717,000			717,000			
Drill chucks (Jacobs Manufacturing)	554,150						584,150
Dictating machines (Dictaphone Corp.)	300,000						350,000
Regulating instruments (Minneapolis-Honeywell Regulator Co.)	300,000						300,000
Metalworking machinery (The Yorder Co.)	294,500			204,500			
Miners safety lamps (Thomas A. Edison)	230,000						250,000
Mine car-loading equipment (Gardner-Denver Co.)	140,000						
Metal-spraying equipment (Metallizing Engineering Co.)	103,750		140,000				103,750
Machine parts (Dana Corp.)	205,650			200,000			
Material-loading equipment and road-building machinery (Barber-Greene Co.)	47,555						47,555
Stainless steel valves (Cooper Alloy Foundry Co.)	153,500						153,500

Transportation equipment.....	1, 417, 908	60, 300	1, 357, 608		
Diesel trucks (Ford Motor Co.).....	924, 108		920, 108		
Railway equipment (Westinghouse Air Brake Co.).....	60, 300	60, 300	437, 500		
Truck trailers (Fruehauf Trailer Co.).....	437, 500		17, 500		382, 750
Consumer goods.....	400, 250				218, 750
Low-cost books (Pocket Books, Inc.).....	218, 750				75, 000
Soluble coffee (Standard Brands, Inc.).....	75, 000				49, 000
Cooking, lighting, and heating appliances (S. F. Appliances, Ltd.).....	49, 000				
Public, technical, and educational books (McGraw-Hill International Corp.).....	40, 000		17, 500		40, 000
Slide fasteners (National Fastener Corp.).....	17, 500				
Industrial equipment.....	382, 212		250, 831		
Elevators and equipment (Otis Elevator Co.) ¹	250, 831		250, 831		
Clay refractories (Corhart Refractories).....	70, 000				
Electrical insulating materials (Dow Corning Corp.).....	61, 381				
Building materials.....	635, 000	20, 000	90, 000	175, 000	
Asphalt tile (Johns-Manville Co.).....	350, 000				
Concrete ingredients (Concrete Chemicals Co.).....	40, 000		90, 000		
Stone cutting (Joseph Pacific).....	20, 000	20, 000		175, 000	
Venetian-blind materials (H. H. Sonnenberg).....	175, 000				
Other.....	3, 584, 100		2, 894, 100		1, 000, 000
Watches and clocks (General Time Instruments).....	1, 000, 000				1, 000, 000
Rubber tires and tubes (Firestone Tire & Rubber Co.) ²	2, 894, 100				
Agricultural projects: Vegetable-seed cultivation (Associated Seed Growers).....	87, 500	87, 500			
Construction engineering-technical assistance.....	465, 500		465, 500		
Foster-Wheeler Corp.	213, 500				
Morrison-Knudsen.....	252, 000				
Forward contracting: Petroleum refining (Standard Oil Development Co.) ⁴	1, 054, 000			1, 054, 000	

¹ Guaranties of convertibility, except as otherwise noted.
² Covers 2 contracts, 1 for convertibility and 1 for expropriation.
³ Expropriation only.
⁴ Covers 2 separate projects.

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2. Industrial investment guaranties pending as of Dec. 31, 1952

Industrial guaranties	Total	Belgium	China (Taiwan)	Denmark	France	Germany (Federal Republic)	Greece	Italy	Netherlands	Philippines	Turkey	United Kingdom
Transportation pending	\$53,206,267	\$1,233,500	\$3,680,000	\$182,500	\$5,241,800	\$2,313,555	\$8,503,550	\$18,884,831	\$4,430,018	\$795,000	\$3,452,213	\$4,129,300
Industrial investments	44,739,467	1,233,500	3,680,000	182,500	4,941,800	2,313,555	3,636,750	18,884,831	4,430,018	795,000	452,213	4,129,300
Manufacturing projects	40,772,617	1,233,500	3,680,000	182,500	4,890,800	1,972,705	3,636,750	18,809,831	1,430,018	795,000	452,213	3,629,300
Petroleum refining	14,822,000							14,822,000				
Chemicals	7,175,072				1,056,500	1,125,755	554,000	3,136,536	29,318		452,213	820,750
Fertilizers	29,318								29,318			
Fungicides	932,500				962,500							
Industrial chemicals	1,125,755					1,125,755						
Metallurgical and pharmaceutical preparations	2,767,749				94,000		554,000	1,761,536			452,213	
Plastic materials	2,239,750							1,375,000				
Machinery and equipment	3,797,500	235,000							1,212,500			2,350,000
Office machines	785,000	235,000							550,000			
Oil hoisting pumps	182,500								182,500			
Oil well drilling machinery	2,000,000								100,000			2,000,000
Machinery	103,000											350,000
Regulating instruments	350,000											
Transportation equipment	2,509,900	208,800			1,666,800	97,500		113,500	167,200			255,500
Automotive replacement parts	2,034,900	208,800			1,291,800	97,800		13,800	167,200			255,500
Brake binding materials and equipment	190,000				375,000			100,000				
Trailers	375,000											
Consumer goods	282,000				102,000	180,000						
Package soups	92,000				92,000							
Publishing enterprises	180,000					180,000						
Safety fasteners	10,000				10,000							

Electrical machinery equipment and supplies.....	6,009,200	3,680,000	182,500	1,315,500	119,150	509,000	208,050
Electrical generating equipment.....	3,680,000	3,680,000					
Electrical insulating material.....	265,500			265,500			203,050
Radio and radar.....	831,200				119,150	509,000	
Storage batteries.....	182,500		182,500				
Welding materials.....	1,050,000			1,050,000			
Industrial equipment.....	2,299,195	849,700		750,000	450,000	228,495	
Elevators and equipment.....	642,495				450,000	192,495	
Filters.....	21,000					21,000	
Materials handling equipment.....	1,635,700	849,700		750,000		36,000	
Fabricated metal products: Metal drums.....	795,000						795,000
Other: Sugar refining.....	3,082,750					3,082,750	
Agricultural projects: Seed cultivation.....	75,000					75,000	
Financial: Commodity financing.....	3,000,000					3,000,000	500,000
Services: Hotel operation.....	500,000			51,000			
Water-well drilling.....	51,000						
Construction engineering-technical assistance.....	340,850				340,850		
Forward contracting.....	8,466,800			300,000		5,166,800	3,000,000
Chemical engineering.....	300,000			300,000			3,000,000
Coal mining engineering.....	3,466,800					466,800	
Electric-power engineering.....	4,700,000					4,700,000	

VII. TECHNICAL COOPERATION ADMINISTRATION (TCA)

A. OVERALL RESPONSIBILITIES

1. *General objectives of program*

The TCA, under the act for International Development has the responsibility for aiding the efforts of the peoples of economically underdeveloped areas to develop their resources and improve their working and living conditions by encouraging the exchange of technical knowledge and skills and the flow of investment capital. If the TCA fulfills its responsibilities, its programs can help to create the basic conditions necessary for successful private enterprise and investment. The program has as its objective not only economic development per se, but the improvement of the "human capital" without which genuine development cannot be brought about or sustained. The expert assistance and financial contribution to projects in the fields of agriculture, health, sanitation, education, housing, transport, power, irrigation, communications, and the like, are calculated to build the human, social, and economic foundations which should make possible a higher level of private economic enterprise.

2. *Responsibilities under section 516 (e)*

TCA is specifically responsible under section 516 (e) of the Mutual Security Act of 1951, as amended, for finding and drawing the attention of private enterprise, in cooperation with the Department of Commerce and the Mutual Security Agency, to opportunities for investment and development in underdeveloped areas; and for seeking the participation in its program of private agencies and persons, especially private industrial groups, to the greatest extent practicable.

3. *Pooling of resources with Department of Commerce*

TCA and the Department of Commerce have pooled their resources to carry out an intensified program consisting of the following three principal parts:

- (1) The encouragement of conditions favorable to private investment, both local and foreign;
- (2) The identification of specific opportunities for investment and location of interested investors;
- (3) The assembly and dissemination of country background necessary to foreign investors.

Missions in the field were instructed to work with the host government, local business groups, and individual businessmen, to accomplish these objectives. Each TCA Country Director was instructed to appoint a member of his staff to be responsible for the private investment phase of international development activities, supplementing the work of the economic section of the Embassy or Legation. (For text, see appendix.)

B. LOCATING OPPORTUNITIES FOR PRIVATE INVESTMENT

The staff was instructed to help in the reporting of specific opportunities for private investment and patent licensing under Foreign Service Economic Reporting Circular No. 31 of July 20, 1951. (Text will be found in appendix.) The circular prescribes the methods of handling requests of private persons and firms desiring to obtain

(a) private investment funds from United States sources and (b) license to utilize United States patents, trade-marks, copyrights, or technical knowledge (know-how); or conversely, to convey the rights to their own patents or formulas to an interested United States licensee.

The information received is transmitted to the Commercial Intelligence Branch of the Department of Commerce and disseminated throughout the United States. A concise account of each investment and licensing opportunity is published in the Foreign Commerce Weekly by the Office of International Trade of the Department of Commerce, and secondary publicizing takes place through the 42 regional offices of the Department. The regional field offices also contact private individuals and business firms in the United States who are potential foreign investors, licensors or licensees.

Types of opportunities to be reported cover—

Investing in new plants abroad; full or partial purchases of new foreign enterprises such as plants, utilities, mines, plantations, etc., existing or projected, incorporated or unincorporated;

Licensing to foreign firms of American-owned patents, trade-marks, secret formulas or copyrights, with or without a share in management by the American owners;

Licensing to United States firms of foreign-owned patents, trade-marks, formulas or copyrights;

Supplying American know-how regarding industrial processes and techniques, as distinct from the grant of patent rights. This may involve the hiring of American engineers and technicians, for long or short periods; it frequently is tied in with the purchase of American machinery and equipment. Many American processes are not patented abroad, their protection being assured by the experience, skill and special equipment of the manufacturer.

To supplement Foreign Service Economic Reporting Circular 31 and to emphasize the special responsibilities of TCA in the area of private investment, the Agency issued its own instructions in the form of a circular airgram, dated October 23, 1952. The circular airgram is reproduced in the appendix.

TCA missions were instructed to report all background information which would be valuable to United States agencies in Washington and to private businessmen in connection with the investment program, and to explore all means of furthering private enterprise through jointly agreed technical assistance projects. Special regard was to be given to projects of long-range importance designed to facilitate private investment through advice in such fields as government fiscal policies and administration, mining and corporation laws, etc., and through advice and possibly joint action with respect to improvement of credit facilities and establishment and strengthening of institutions directed at channeling private capital into approved development enterprises.

Even though the conditions at the outset in a given country offer little hope for early results, the missions were instructed that the program should nonetheless be carried forward in an effort to ameliorate present unfavorable conditions.

The responses from the missions to the circular airgram on private investment program in TCA countries are of mixed character. A few indicate understanding and enthusiasm for the program, a larger number that little more than what is already being done is possible under existing conditions, and some the need for further discussion and clarification. This project is, of course, only in the beginning stages of development. It will require the continued joint attention of TCA and other interested agencies in Washington and of missions in the field in the process of developing the program so as to meet the particular problems and needs of individual countries.

C. SERVICE TO BUSINESS PROJECT

As a means of promoting United States private foreign investment, TCA has given financial assistance to the Department of Commerce (1) to prepare a series of investment guides; (2) to extend investment counseling services by members of the staff of Office of International Trade (OIT) and (3) to prepare a census of United States direct investment abroad.

D. EXTENSION OF THE INVESTMENT GUARANTY PROGRAM

The MSA investment guaranty program, which had been limited to ECA areas in the past, was extended to all countries covered by the Mutual Security Program. It was implemented in a TCA area for the first time when Israel concluded negotiations for the program on August 8, 1952. Preliminary discussions have been held with 12 other countries in Asia and Latin America.

In administering this program with respect to TCA countries, MSA relies on TCA for policy determinations and recommendations concerning specific guaranty applications.

This program is a facet of TCA's program for industrial development and the stimulation of private investment.

E. INDUSTRIAL DEVELOPMENT—PRIVATE INVESTMENT PROGRAM

The greatest opportunity for the stimulation of private capital investment is the field of industrial development. Although other fields such as agriculture, natural resources, and transportation also offer opportunities for private capital investment, they are not usually attractive for such investment. TCA activities in this area involve planning and carrying out—

- (1) Industrial development projects appropriate for inclusion in a regular program of technical cooperation financed jointly by the United States and the host government;
 - (2) Projects designed to stimulate the investment of local private capital in industrial development;
 - (3) Projects designed to stimulate the investment of foreign private capital (especially United States capital) in industrial development—
- as illustrated below.

1. *Productivity centers*

In response to requests, the Institute of Inter-American Affairs (IIAA) has participated in organizing national productivity improvement centers in Chile, Brazil, and El Salvador, while similar programs are under consideration in Uruguay, Colombia, and other countries. The overall objectives for these jointly managed cooperative services in the field of industrial methods will be to provide medium and small industries with a practical grasp of efficient basic techniques of industrial operation adapted to their particular needs. (The cooperative service, called a *servicio* in Latin America, is a device for the joint conduct of technical cooperation programs which is used by TCA in many countries and program fields. Essentially, the cooperative service is an agency established by the host government under an agreement with the United States which is jointly managed by United States and host government technicians and financed by contributions from both governments.) The program is intended to increase production and lower costs, through better utilization of available manufacturing equipment, existing raw materials, and present labor force. Technical assistance activities will deal primarily with fundamental engineering techniques associated with effective productivity, production planning and control systems, plant layout, materials handling, methods engineering, process methods, personnel practices, and labor-management relations. Over a long period the benefits to each country in the general use of efficient production procedures will undoubtedly be of very great consequence to the living standards of the people.

Similar projects are now under consideration for Asia, the Near East, and Africa.

2. *Latin America and small industries*

A number of Latin American countries, including Colombia, Panama, the Dominican Republic, and El Salvador have requested assistance in the development of small industries. New industries would provide not only employment, but a more balanced economy and an opportunity to obtain exchange for the purchase of capital items and raw materials. The Institute is now making arrangements with several private industrial and investment firms to undertake preliminary surveys in several of the Latin American countries which have requested this technical aid through Embassy channels.

3. *South and southeast Asia and industrial development*

TCA countries in south and southeast Asia are receiving help in urban and industrial development. TCA has cooperated with Pakistan by providing technical assistance in the development of small industry. In Indonesia detailed studies are being made on railway and harbor improvement, mechanical industries, and machine-shop production, chemical industry, power and communications development. During fiscal year 1953, 30 Indian trainees have been studying at American schools and laboratories in the effort to assist in India's technological growth by creating a body of skilled managers and technicians. In India, the Damodar Valley project has the service of a TCA small industries adviser. Burma is being helped to complete its plans for the development of the teak industry, food

processing, textile and cordage industries, bamboo, paper, jute, ceramics, glass, refined minerals, and chemical production. These are but a sampling of projects underway in the area of industrial development.

4. *Latin America and flow of capital*

It has been proposed to undertake a small program of technical assistance for increasing private investment in Latin America. This project attempts to deal directly with certain factors retarding the flow of investment capital. One is the lack of experience and know-how on the part of Latin American industry in the preparation of adequately documented prospectuses upon which American investors can rely in confidence. Another is inadequate machinery for bringing together investment opportunities which now exist in Latin America with potential sources of investment funds within this country. The proposal attempts specifically to meet such problems as these on an experimental basis, utilizing methods and personnel suggested by investment authorities with whom these problems were discussed.

5. *Asia Development Service*

The Asia Development Service of TCA is also studying the possibility of entering into contract with an established investment house to undertake studies of investment possibilities in certain underdeveloped countries, provided such a service is believed to be useful in the field and if a request for such service is received from the host government.

F. PROMOTING PARTICIPATION OF PRIVATE AGENCIES BY CONTRACT

1. *Mandate of section 407 (a)*

In accordance with the legislative mandate in section 407 (a) of the Act for International Development, TCA contracts with private agencies, organizations, and persons for the furnishing of technical assistance and the conduct of demonstration projects in these areas. It employs such private contracts both as an effective means of making available to the underdeveloped countries the technical and organizational skills possessed only by private organizations and business enterprises, and as a way of acquainting private business on the one hand, and the governments and peoples of the underdeveloped areas on the other, with further opportunities for mutually advantageous cooperation. TCA enters into contracts both with private business enterprise (under sec. 516 (e) of the Mutual Security Act) and with nonprofit educational, research, and welfare organizations and institutions for services in connection with all major phases of its program. TCA has found, however, that nonprofit educational and welfare institutions are the principal private source for technical skills in education, public health, and agriculture of the type most suited to the underdeveloped areas, while private business enterprise is the chief reservoir of skills in the field of industry, natural resources development, and the engineering and economic phases of comprehensive development planning. It is expected that the number of contracts with business enterprises will increase as present TCA efforts to expand technical cooperation programs in the fields of industry and nonagricultural resources development bear fruit. It is hoped that this phase of the program will be accelerated.

2. Summary of contracts and amounts

The total amount of contracts for services with United States private agencies and persons financed by TCA from the inception of the program through February 28, 1953, is \$19,521,533 of which \$11,169,236 represents contracts with private business organizations and \$8,352,297 contracts with nonbusiness organizations.

The total amount from the inception of the program through December 31, 1951, is \$7,079,901, of which \$3,994,808 represents contracts with private business organizations and \$3,085,093 contracts with nonbusiness organizations. For the period January 1, 1952, through February 28, 1953, the total amount is \$12,441,632, of which \$7,174,428 represents contracts with private business organizations and \$5,267,204 contracts with nonbusiness organizations.

Contracts with private business organizations represent 56 percent of the total in the period from the inception of the program through December 31, 1951; 58 percent of the total in the period January 1, 1952, through February 28, 1953.

The summary above does not include contracts for the procurement of commodities. Procurement of commodities from private supplies in the United States under TCA programs was authorized in the amount of approximately \$60 million in fiscal year 1952.

Business contracts for participation of private agencies in TCA programs
FROM BEGINNING OF PROGRAM THROUGH DEC. 31, 1951 (PART I)

Contractor and address	Amount	Country	Type of work
Adams, Harvard & Greeley, Boston, Mass.	\$15,000	India	Preparation of town plan.
Aero Service Corp., Philadelphia, Pa.	200,000	Liberta	Aerial photographic mapping.
	8,767	Saudi Arabia	Furnishing of prints, etc.
Armour Research Foundation of Illinois Institute of Technology, Chicago, Ill.	54,348	do	Aerial photographic mapping of a defined area.
	48,000	Latin America	Survey of plans for construction materials demonstration and training center.
Architects Collaborative, Cambridge, Mass.	150,000	Pakistan and India	Provision of technical advice in several industrial fields.
Aviation International Delivery Service, Inc., Washington, D. C.	15,000	Costa Rica	Supplying technical assistance in housing.
Black Star Publishing Co., New York, N. Y.	41,600	Pakistan	Aerial antitank spraying.
Columbia Federal Savings and Loan Association, Washington, D. C.	1,600	Liberta	Photographic report of projects.
General Railway Signal Co., Rochester, N. Y.	15,000	Latin America	Preparation of study on mobilization of local capital for agricultural investment.
Gibbs & Hill, Inc., New York, N. Y.	11,865	Pakistan	Conduct of field survey and making of recommendations on railway signaling and traffic control system.
Halmes, Sidney S., and Associates, Washington, D. C.	100,000	Brazil	Advisory and engineering services for joint commission in power development and transportation.
Harland Bartholomew and Associates, St. Louis, Mo.	10,000	Latin America and TCA/W	Preparation of exhibits and graphic arts presentation.
Knappen Tippetts Abbott Engineering Co., New York, N. Y.	20,000	Pakistan	Provision of technical advice on municipal water supply and sewage systems.
	10,000	Ecuador	Preparation of survey of proposed port improvements.
	39,840	Jordan	Construction and restoration of cisterns and irrigation works.
	29,000	do	Additional repair of equipment.
	1,500,000	Burma	Services as technical secretariat to Burma Economic Council, including economic advice, consultation, engineering, supervision, and procurement.
Little, Arthur D., Inc., Cambridge, Mass.	20,000	Egypt	Survey of low-cost housing materials and construction.
	3,000	Costa Rica	Preparation of recommendations on technical assistance in private industry development.
Mitchell, James T., Oklahoma Agricultural and Mechanical College.	3,165	TCA/W	Consulting services as audiovisual specialist.
	2,940	TCA/W	Do.
Richards, Louis J., Washington, D. C.	2,955	TCA/W	Drilling of 20 water-supply wells and installation of pumps.
Rochmont L. de Corp., New York, N. Y.	230,000	Iran	Production of motion pictures and training and advice.
Southwest Research Institute, San Antonio, Tex.	204,000	Burma	Preparation of study and recommendations on the babassu nut industry.
Springfield, Lawrence, Philadelphia, Pa.	45,818	Latin America	Consulting services on visual education in Washington.
Stryker, Roy E., New York, N. Y.	2,910	TCA/W	Provision of technical advice in Washington on visual education program.
United States Overseas Airlines, Wildewood, N. J.	6,000	TCA/W and all TCA countries	Aerial antitank spraying.
White, J. G., Engineering Corp., New York, N. Y.	21,000	India	Advice and consultation on planning of balanced economic development, design and engineering services, supervision of construction and purchasing services.
	1,100,000	Indonesia	

Wood, Richardson & Co., New York, N. Y.----- 15,000 All TCA countries----- Report on investment opportunities for use in promoting private business participation.

Total-----

3,994,808

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Aero Service Corp., Philadelphia, Pa.-----	\$534,000	Liberia-----	Aerial survey of certain areas for use in planning economic development.
-----	38,889	Saudi Arabia-----	Furnishing of mosaics, topographic maps, and prints from existing aerial photography.
-----	96,359	Jordan-----	Aerial survey of river valley.
-----	30,000	Liberia-----	Aerial photographic mapping.
-----	85,000	Jordan-----	Construction and installation of grain handling and storage facilities.
Airform International Construction Corp.-----	-----	TCA/W-----	Consulting services.
Ala 'Iluma, Fay Calkins, Arlington, Va.-----	1,290	Saudi Arabia-----	Escorting Saudi leaders in inspection of United States reclamation, irrigation, education, and health programs.
American Express Co., New York, N. Y.-----	7,700	Pakistan and India-----	Provision of technical advice in several industrial fields.
Armour Research Foundation of Illinois Institute of Technology, Chicago, Ill.-----	93,539	-----	Advice in reorganization of State Industrial Research Institute, Rangoon.
-----	193,000	Burma-----	Preparing general study on point 4 program.
Aswell, James R., Arlington, Va.-----	3,000	TCA/W-----	Expansion of above study.
Aviation International Delivery Service, Inc.-----	1,500	TCA/W-----	Training of pilots in aerial antiloss spraying.
-----	13,700	Pakistan-----	Exhibit of Piper Cub plane in Ceylon exhibition, Colombo.
-----	1,150	Ceylon-----	Aerial antiloss spraying and training.
Bollman, Geo. W., & Co., Adamstown, Pa.-----	27,000	Pakistan-----	Research on recovery of Kenaf fiber.
Chapelle, Anthony and Dickey, New York, N. Y.-----	33,750	Latin America-----	Photographs and report of point 4 programs.
Continental Drilling Co., Los Angeles, Calif.-----	6,000	TCA/W-----	Geologic exploration of Litani River Basin.
Drobish Smith Olive Oil Co., Oroville, Calif.-----	250,000	Lebanon-----	Advice in olive-oil production.
Dryden Plant Engineers, Inc.-----	9,070	Jordan-----	Advice on storage facilities.
Edwards, Kelsey and Beck, New York, N. Y.-----	18,000	Brazil-----	Advice and preparation of surveys on road-system development.
-----	154,700	Iraq-----	Provision of laboratory director to roads project.
-----	26,050	do-----	Advice in grain storage.
Ehasz, Frank L. and Associates, New York, N. Y.-----	15,000	Egypt-----	Provision of special adviser to State Bank of Pakistan.
Federal Reserve Bank of Dallas, Dallas, Tex.-----	22,500	Pakistan-----	Increase to preceding contract.
-----	6,883	do-----	Technical advice on health and sanitation in Washington and Pakistan.
Feenster, Roy F., Brookline, Mass.-----	6,723	do-----	Technical advice and supervisory services in irrigation.
-----	8,852	Israel-----	Consulting services in social insurance.
Flannelly, Walter, New York, N. Y.-----	16,800	Haiti-----	Advisory and engineering services for joint commission on power development and transportation.
Galbraith, Dr. Douglas J., Toronto, Canada-----	300,000	Brazil-----	Do.
Gibbs & Hill, Inc., New York, N. Y.-----	-----	do-----	Preparation of exhibits and graphic-arts presentation.
Haires Sidney S., and Associates, Washington, D. C.-----	175,000	Latin America and TCA/W-----	Conduct of railroad-construction survey.
International Engineering Co., San Francisco, Calif.-----	15,000	Saudi Arabia-----	Preparation of complete plans for construction of motion-picture laboratory, recording and preview facility and sound stage.
Johnson, Robert, Inc., New York, N. Y.-----	330,000	Burma-----	-----
-----	8,100	-----	-----

See footnote at end of table, p. 50.

Business contracts for participation of private agencies in TCA programs—Continued

FROM JAN. 1, 1952, THROUGH FEB. 28, 1953 (PART II)—Continued

Contractor and address	Amount	Country	Type of work
Klemme, Randall T., Stillwater, Okla.	\$6,135	Pakistan	Services as economic consultant and preparation of report.
Kuappen Tippetts Abbott Engineering Co.	2,250	do	Do.
Litchfield, Whiting, Pauero Severud and Associates.	2,500	Jordan	Repair of equipment—restoration of cisterns and irrigation works.
Little, Arthur D., Inc., Cambridge, Mass.	7,500	Paraguay	Provision of technical advice on hydroelectric-power development.
Richards, Louis J., Washington, D. C.	848,562	Burma	Services as architect, engineer, and consultant in hospital and health-center construction.
Smith, Harold T., Inc., Washington, D. C.	35,000	Egypt	Testing and demonstration of construction machinery.
Springfield, Lawrence, Philadelphia, Pa.	240,000	do	Survey of basic economic potential.
United States Overseas Airlines, Wildwood, N. J.	110,000	Iran	Drilling 10 water-supply wells.
Whiting, Edmund Jay, New York, N. Y.	830,000	India	Drilling and equipment of tube wells for irrigation.
The William Hood Durrwoody Industrial Institute, Minneapolis, Minn.	1,022,023	do	Do.
	1,245,909	do	Do.
	215,383	TCA/W	Consulting services in visual education.
	22,300	Iran	Aerial antilocus spraying.
	6,000	do	Instruction of Iranian personnel in spraying.
	2,505	do	Advice on hospital health-center construction.
		Indonesia	Training of 3 technicians.
Total	7,174,428		

¹ Exclusive of contracts for procurement of supplies and equipment and of contracts with nonbusiness private agencies.

G. THE MAFFRY REPORT

In addition to the activities mentioned above, TCA requested August Maffry, a vice president of the Irving Trust Co. and a former member of the Board of Directors of the Export-Import Bank, to examine the problem of encouraging private foreign investment from the point of view of the banker outside Government. The report envisages a program of action by all agencies of Government concerned with promoting private investment abroad. It recognizes the difficulties involved in increasing the flow of capital abroad and sets forth extraordinary measures considered necessary to produce a substantial increase in foreign investment by individuals and institutions. Particular attention is given to the potential role of the Export-Import Bank in providing loan capital, and the ways in which the United States Government can assist in improving the climate of investment. A summary of the major provisions of the report will be found on page 6 above.

H. NEED FOR ACCELERATED ACTION

While there has been an improvement in the implementation by TCA of its responsibilities to encourage the flow of private investment into host countries, it is hoped that this implementation may be considerably accelerated. In this regard, the remarks of the Hon. Karl M. LeCompte during the subcommittee hearings are pertinent:

In the long-range view, we can accomplish much more with private capital in point 4 than we could possibly by sending Government-paid technicians, if we can interest enough different private investors.

The Hon. Eric Johnston, in response to these remarks, had this to say during his appearance before the subcommittee:

The natural resources of those areas, in my opinion, can be better developed by private funds. Private capital carries with it its own technicians. They stay longer and have a greater incentive to produce. There are many reasons why it is preferable. I think we should encourage more private capital to go into these areas for industrialization and thereby promote trade, and that, of course, means less aid.

VIII. DEPARTMENT OF COMMERCE

A. REQUIREMENTS OF SECTION 516 (C)

Section 516 (c) of the Mutual Security Act of 1951, as amended, requires the Department of Commerce, in cooperation with private business groups and governmental agencies, to conduct a thorough study of legal and other impediments, both foreign and United States, to private investment abroad. The Department is also required, as part of such responsibility, to conduct a thorough study of the methods and means whereby those impediments can be removed or decreased. Finally, it is required to make recommendations on the whole subject to the Director for Mutual Security.

B. NEED FOR BASIC INFORMATION

Investing abroad involves more than simply investing in a business; it involves also investing in a country. Conditions affecting business in a foreign country differ from those in the United States. Persons

considering an investment abroad must have available to them not only specific data as to the project or enterprise in question, but also a considerable range of general background commercial and economic information having a bearing directly and indirectly upon the prospects of an enterprise in the particular country in view. A second segment of the program for the promotion of private investment abroad consists of the assembly and dissemination of this essential material. The necessary information includes such things as population data, income data, full information about business laws and regulations, knowledge of tax laws and tax rates, financial and monetary data, information concerning transportation and communications, facts as to labor supply and labor costs, and information about natural resources and such basic industrial resources as electric power, fuels, iron and steel, and other basic industrial materials. Investors, both large and small, need to have such information in order to assess investment opportunities abroad.

C. SHIFT OF EMPHASIS TO UNDERDEVELOPED COUNTRIES

Until the introduction of the technical assistance program, effort in this regard was directed primarily toward those countries with which the United States has its most extensive and important economic and commercial connections. With the institution of the program emphasis has been shifted to the underdeveloped countries. As a result of efforts expended to date, the Department of Commerce points to two accomplishments: First, information for most of the underdeveloped countries needed to service current requests from the business community has been gathered and, second, for some of the underdeveloped countries there has been assembled a full body of information which should be adequate to meet almost any kind of need.

D. CURRENT PREPARATION OF INVESTMENT GUIDES

A feature of this segment of the program is the current preparation of so-called investment guides. These guides or manuals, to be issued country by country in book form, will contain general information of primary interest to traders and investors abroad. These guides constitute only one of the ways in which the material contained may be conveyed to those interested. It can be publicized, and it regularly is, through pamphlets, through the periodical Foreign Commerce Weekly, and through bulletins issued by Department of Commerce field offices.

E. OFFICE OF INTERNATIONAL TRADE

During 1951 and 1952 work was done by the Office of International Trade toward the preparation of investment guides for nine countries. Several of these guides should be available by July 1953 in published form. The volume dealing with Venezuela is already in press to be followed shortly by one for Colombia. It is hoped before the end of the present fiscal year that the volumes for India, Mexico, and possibly Pakistan likewise can be completed.

The Office of International Trade has been entrusted with the responsibility of conducting the study required by section 516 (c) of the Mutual Security Act. The Department of Commerce states that

it has taken full advantage of the informational resources of the several geographical and functional divisions of the Office in carrying out the study. The problems of foreign investment have been approached by Commerce in two ways: First, an analysis of factors impeding investment has been made through a series of country studies, each one designed to give in summary form a view of the main pertinent factors in that instance. Review of this series of studies presents the composite picture. Second, consultations have been held with a number of American firms already established in foreign operations or in a position to consider the undertaking of operations abroad. The firms consulted include a number of different fields of business of varying importance in foreign operations and they include firms having interests in virtually all of the foreign countries in which United States capital is known to be engaged. This is in keeping with the mandate of section 516 (c) that the Department of Commerce, in conducting its study, should cooperate with business groups.

The Department of Commerce states that the results of this study will be ready for issuance very soon. This study is now long overdue. The subcommittee realizes that the study required by section 516 (c) involves a heavy workload and that the task is a complex one.

IX. RELATED ACTIVITIES AS PART OF TOTAL PROGRAM

A. GENERAL

The encouragement of American private investment abroad is, as has already been indicated, the day-to-day business of such agencies as the Department of State (including the Foreign Service and the diplomatic establishments abroad), TCA, MSA, and the Department of Commerce. Their functions include advice and assistance to American businessmen concerning their operations abroad, obtaining and publishing foreign economic and investment information, and discussing these matters with foreign government representatives.

1. *Necessary base for capital movement*

International private capital movement must have for its base mutual confidence in peoples and governments, and of knowledge and understanding of problems and opportunities. The total foreign policy of United States is, of course, directed toward these objectives. Thus, the development of our strength, and that of our friends, so as to deter the forces of aggression and promote the conditions of peace, is directly related to securing the kind of a world in which private enterprise can function effectively. As President Eisenhower said during the course of his inaugural address on January 20, 1953:

Recognizing economic health as an indispensable basis of military strength and the free world's peace, we shall strive to foster everywhere, and to practice ourselves, policies that encourage productivity and profitable trade.

2. *Broader objectives*

It is impossible within the compass of this report to illustrate all the specific ways in which the achievement of this broad objective is being sought. It is not the purpose of this report to review all the means whereby United States foreign economic policy is being carried out, nor to summarize all aspects of our total diplomatic effort in that regard. It is the expectation of the subcommittee to perform that

task in a future report. Some activities relate directly to foreign economic development, with which State, MSA, TCA, and Eximbank and other Government agencies are directly concerned. This includes the area of private capital movement, already discussed above. Others may be found in such closely related fields as international trade and financial policy, where the United States is pursuing various measures for expanding the world economy. Because, for example, restrictive business arrangements can both impede the flow of investment capital and reduce the benefits of investments that are made, the United States has supported action to reduce such restrictions and to stimulate free, competitive enterprise. The United States is, to cite another example, a strong supporter of the International Monetary Fund and the General Agreement on Tariffs and Trade (GATT), both of which have among their objectives the lowering of trade barriers and payments restrictions so as to encourage fuller use of the world's resources and expansion of the production and exchange of goods.

3. Inconvertible currencies and exchange control

Not only do these organizations contribute to our broader objectives, but they also have a clear relationship to the efforts being made to stimulate the flow of American private capital abroad. One of the significant deterrents to American investment abroad, for example, is the problem of inconvertible currencies and exchange controls. If investors are to risk their capital abroad they must have a reasonable chance of transferring their capital and earnings to the United States in dollars. The guaranty program under the Mutual Security Act, which has been described above, takes this reality into account and makes provision for it. The International Monetary Fund is working to maintain orderly exchange arrangements among its members, and to minimize exchange restrictions—and eventually to eliminate them. At the same time, it is stated, exports to the United States from the countries in which investments are made should be encouraged if countries are to earn the foreign exchange to enable earnings and capital to be transferred to the United States. The stimulation of United States imports is, therefore, directly related to the international flow of private capital. The orderly and mutually advantageous flow of private capital cannot be considered in a separate compartment.

4. United Nations

Mention should also be made of United States participation in the United Nations, which is concerned not only with political and military action designed to promote world peace and security, but with a variety of economic measures including some related directly to the flow of private capital for economic-development purposes. The United States, for example, supported a resolution during the last session of the Assembly, in December 1952, which recognized the importance of stimulating such a flow into the underdeveloped countries and requested the Economic and Social Council to consider ways and means by which the United Nations might assist in this process. At the same session the United States opposed a resolution which, in effect, confirmed the right of governments to nationalize property within their jurisdiction but omitted specific mention of the

accompanying obligations such as that of compensation to former owners. (These resolutions are discussed above on pp. 11-13.) (Likewise, the efforts of this Government to resolve the disputes over specific nationalization measures in Iran and Bolivia, for example, are motivated in large part by the adverse effects of such measures upon the future flows of international private capital.) The United States has also encouraged the Council (and its regional commissions) to study the subject of foreign private investment and to publish material concerning such matters as the laws and regulations of member countries concerning foreign enterprises. Foreign Investment Laws and Regulations of the Countries of Asia and the Far East (U. N. Doc. ST/ECAFE/1, January 1951) may be cited as one example.

5. *Elimination of bond defaults*

The Johnson Act of April 13, 1934, prohibited private American loans to governments in default on their obligations to the United States Government (48 Stat. 574). However, this act was amended by the Bretton Woods Agreements Act of July 31, 1945, to permit governments in default to the United States Government to borrow in the private capital market of the United States provided they are members of the International Bank for Reconstruction and Development and the International Monetary Fund (59 Stat. 516). Moreover, the Export-Import Bank Act of 1945 removed the previous prohibition on loans by the bank to governments in default to the United States Government and, insofar as participation with the Export-Import Bank is concerned, lifted the prohibition of the Johnson Act on loans by private persons to such governments (59 Stat. 526).

Where foreign governments have been in default on their dollar bonds originally sold in the United States, the Department of State has supported action by them to resume service on their obligations and thus eliminate the default situations. The negotiations for adjusted settlements on defaulted obligations of this kind are normally undertaken with the foreign government by the Foreign Bondholders Protective Council, a private independent organization founded in 1933 at the request of the Government to protect the rights and interests of American holders of publicly offered dollar bonds of foreign governments and their political subdivisions - direct and guaranteed. The Council has recently negotiated settlements with Costa Rica, Japan, Peru, and the Federal Republic of Germany. In the latter case, due to the complexities of the situation and the special status of the United States Government as an occupying power, this Government did participate directly in the negotiations. The effect of these measures is to reestablish confidence in the foreign-security market in the United States as well as to protect the rights and interests of American bondholders.

B. EXAMPLES OF INTERRELATIONSHIP OF BROAD POLICIES AND CAPITAL INVESTMENT

The following examples, which are by no means exhaustive, will illustrate the relationship between activities to stimulate private investment abroad and the range of American diplomatic efforts as expressed in numerous ways and through many instrumentalities.

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1. *The Foreign Service and private foreign investment*

The promotion of foreign trade has always been a major responsibility of the Foreign Service, and Foreign Service establishments are also under general, long-standing instructions to assist American businessmen in the consummation of legitimate business transactions as well as to report sound opportunities for trade and investment as they arise. In the period between the two World Wars emphasis was primarily on promoting American exports. During World War II the need for raw materials resulted in equal emphasis being placed on the encouragement of imports into the United States.

It was not until the postwar period, however, that the Foreign Service has assumed as one of its primary duties the encouragement of American investment abroad which will mutually benefit the investor and the recipient country. This is done in day-to-day advice and assistance to American enterprises and businessmen, in obtaining foreign economic and investment information, and in discussing these and related matters with foreign government representatives—including appropriate formal approaches and negotiations where necessary and desirable. Such approaches and negotiations have sometimes resulted in changes in the local laws, regulations, and attitudes affecting foreign investment. Such specific unilateral reforms have been indicated above. In the identification and reporting of sound investment opportunities, the Foreign Service is guided by the instructions contained in Foreign Service Economic Reporting Circular No. 31 of July 20, 1951 (prepared by the Department of Commerce—for text, see appendix).

These basic instructions have been reinforced in recent months by circular communications concerning the promotion of private investment in particular world areas, e. g., countries included in the Mutual Security Program.

2. *Relationship of IMF and GATT to flow of private capital*

The desire of the United States to encourage foreign investment finds support in the objectives of the IMF (International Monetary Fund) and GATT (General Agreement on Tariffs and Trade), as well as in those of other international organizations.

As has already been pointed out, one of the main deterrents to an expansion of foreign investment is the inability of investors in many countries to transfer earnings freely into dollars, and also to withdraw the principal of their investment should they desire to do so. Investors ask: "What good is it to earn profits abroad if the funds become frozen there and cannot be brought home?" Even though transfers of funds in whole or in part may be permitted by the foreign government, the uncertainties regarding possible future limitations, and the administrative requirements for obtaining a license for transfers, do not inspire confidence in investors. They see attractive opportunities for investing their funds at home or in Canada where no currency-conversion problems exist.

(a) *International Monetary Fund*.—One of the main purposes of the IMF, as set forth in its articles of agreement, is "to assist * * * in the elimination of foreign-exchange restrictions which hamper the growth of world trade." To realize this purpose it is the fund's job, among other things, to aid countries in correcting maladjustments in their balance of payments. It seeks "to promote exchange stability,

(and) to maintain orderly exchange arrangements among members." A purpose set forth in the articles of agreement is -

to facilitate the expansion and balanced growth of international trade, and to contribute * * * to the development of the productive resources of all members as primary objectives of economic policy.

Both the objectives, and the activities of the fund to realize them, are clearly in the interest of foreign investors. So far, only a few of the members of the fund have found it possible to meet completely the fund's objective of operating without restrictions on current exchange transactions. The remainder are availing themselves of the privilege of maintaining exchange restrictions during the transitional period. The fund, however, has endeavored through its consultations with the member countries to limit the application of exchange restrictions to the extent that is consistent with their balance-of-payment problems. The fund has also guided members in the application of restrictions so that they would have the least undesirable effect on international trade and finance. Moreover, by encouraging members to take measures to deal with the fundamental causes of balance-of-payments difficulties, the fund is helping to create the conditions under which exchange restrictions can ultimately be removed.

In addition, the financial resources of the fund are designed to serve as a second line of reserves for its members in meeting temporary balance-of-payments difficulties. The resources of the fund are not large when viewed against the total volume of international transactions carried on in the currencies of its members, and the fund cannot meet the developing requirements of a world situation in which persistent financial disequilibrium is the rule rather than the exception. Recent developments in the fund's policies on the use of its resources, however, give members somewhat greater assurance than before that they will be able to call on the fund when they encounter balance-of-payments deficits. Under these circumstances, the members may consider that they can take greater risks both in relaxing restrictions and in refraining from intensifying or introducing exchange restrictions.

During the hearings before the subcommittee, it developed from the testimony of the Honorable Frank Southard, Jr., United States Director of the International Monetary Fund, that the fund takes every precaution to maintain the liquidity of its assets and does not allow countries to draw where the difficulties of such countries are long range or fundamental rather than temporary. This was brought out during the following colloquy between the chairman of the subcommittee, the Honorable Jacob K. Javits, and Mr. Southard, during the latter's explanation of this point:

Mr. JAVITS. Mr. Southard, is it your opinion that the purposes which the fund was designed to deal with, that is, seasonal, cyclical and emergency fluctuations, balance of payments, are pertinent to the world today and what you see ahead for some years; isn't this a very different kind of world and a very different kind of situation than was contemplated when the fund was set up?

Mr. SOUTHARD. It has turned out that the disequilibriums in balances of payments have been much more stubborn than I think was hoped for and contemplated. So far we must admit that there has been less room for the kind of short-term operation the fund was planned for. * * *

(b) *General Agreement on Tariffs and Trade.*—The General Agreement on Tariffs and Trade (GATT) also is designed to promote conditions for increased international trade, investment, and economic

development. The agreement, to which 34 countries accounting for some four-fifths of world trade are parties, aims to reduce trade barriers and to reestablish trade on a multilateral, nondiscriminatory basis. Under the agreement, countries negotiate for tariff reductions and, subject to specified exceptions, undertake obligations to eliminate quantitative restrictions and reduce or eliminate discriminatory and preferential practices. In addition to setting forth widely accepted rules for conduct for international trade, the agreement provides a forum for handling problems affecting the trade of participating countries.

The purposes of GATT, like those of the IMF, to the extent they are achieved, are of some benefit to foreign investors. The reduction of trade barriers and the establishment of conditions of freer international trade provide the circumstances where in an expansion of world trade and investment can take place. An increase in international economic relations, as sought by GATT, creates opportunities for new investment, facilitates the servicing of investments, and promotes generally the establishment of productive enterprises and the investment of funds across national boundaries.

3. *Export-Import Bank and flow of private capital*

Established in 1934, the Export-Import Bank Act of 1945, as amended, states that—

The objects and purposes of the bank shall be to aid in financing and to facilitate exports and imports and the exchange of commodities between the United States or any of its Territories or insular possessions and any foreign country or the agencies or nationals thereof.

The act further states:

It is the policy of the Congress that the bank in the exercise of its functions should supplement and encourage and not compete with private capital, and that loans, so far as possible consistently with carrying out the purposes of subsection (a), shall generally be for specific purposes, and, in the judgment of the Board of Directors, offer reasonable assurance of repayment.

During its existence, the bank has made many types of loans in most of the free countries of the world. Some of these, particularly following the war, have been to foreign governmental agencies for basic economic facilities such as roads, dams, irrigation developments, etc. These are prerequisites to the advent of private investment. Principally, however, the bank's activities, as directed, have been for the stimulation of United States exports and imports and the investment of United States private capital abroad. Since it is a banking institution, proposed projects are judged in the light of their worthiness as to self-liquidation and their benefits to the recipient foreign economies in respect to dollar earnings or savings. Projects have been financed in three broad categories: (1) exporter loans; (2) loans for foreign projects in which the United States investor has an interest; (3) loans made in which United States commercial banks participate with Export-Import Bank for their own account and risk.

(1) The exporter loan is the means by which many United States manufacturers and service organizations finance the sale of their products or services in countries on credit extended by the bank. In these instances, the bank purchases the dollar obligations of the foreign purchaser so that the latter may promptly pay the United States supplier in dollars for his goods or services. It is usual for the

United States supplier to carry a share of the foreign paper for his own account and risk.

(2) Loans for foreign projects in which the United States investor has an interest, ranging from complete ownership to a minority position, are particularly attractive to the bank. These loans serve the dual purpose of aiding in the export of American know-how techniques as well as capital. The bank undertakes to have the United States interests, as well as local interests, invest in the needed equity. The bank supplies the appropriate debt financing.

(3) Loans made by the Export-Import Bank in which United States commercial banks participate by purchasing certain maturities for their own account and risk are those where the Export-Import Bank has initiated the loan to a foreign entity in whose country the investment climate and security is good but where the terms of repayment are longer than a private lending institution by law or policy may extend. By purchasing early maturities of such a loan from Export-Import Bank, the United States commercial bank may participate for that period of time feasible for its interests and receive a rate of interest consistent with the period of its participation.

The first category of financing has been responsible for the export of many United States products from every manufacturing community in the United States. Manufacturers of railroad and steel-mill equipment, airplanes, motorbuses, agricultural machinery, hydro-electric equipment, and the like, have been the beneficiaries. The second category has been responsible for the undertaking of permanent foreign investment in mining enterprises for basic metals, communication systems, and public utilities. In June 1952 the bank lent \$41,140,000 to seven Brazilian power and light companies to purchase United States equipment and services to enhance their services in various communities in Brazil. The third classification has given opportunity for private financial institutions to do their part in association with the bank in situations and enterprises appropriate to their available facilities. Last year, 32 United States commercial banks participated with the Export-Import Bank in a \$50,000,000 loan to Belgium. In this instance the bank notified members of the Federal Reserve System of its intention to make the loan and invited participation in or purchase of the entire amount by commercial banks. \$45,000,000 was purchased by the commercial banks for their own account and risk. The Export-Import Bank retained \$5,000,000 in its own portfolio.

The bank assists in the administration of the Mutual Security Agency's investment guaranty program, pursuant to an agreement between the bank and the Director for Mutual Security. The bank acts as agent for the Director for Mutual Security in entering into contracts with private American investors, guaranteeing the currency convertibility of receipts from their foreign industrial investments and guaranteeing against loss from expropriation or confiscation of those investments. Although the policy direction of the investment guaranty program and the negotiation of individual contracts thereunder are the responsibility of the Mutual Security Agency—the bank does not exercise any judgment on whether or not to issue a guaranty—the bank assumes administration of the individual contracts once they are signed. This would permit a permanent agency,

the bank, to handle the program should a temporary agency, MSA, come to an end.

The general value of the bank in the field of private enterprise has been stated by the European and Near Eastern Subcommittee of the House Committee on Banking and Currency in these words:

The members of the mission feel that the credits extended by the * * * bank are generally sound and that the projects which they have seen constitute contributions to the economic stability of the borrowing countries. Perhaps above and beyond their material benefits, their value lies in the fact that they have made friends for the United States. (Investigations of Export-Import Bank Loan Activities by Subcommittees of the Committee on Banking and Currency, committee print, Dec. 30, 1951.)

4. *Effects of restrictive business practices on investment capital flow*

Cartels, monopolies, and other restrictive business arrangements can both impede the flow of investment capital and substantially reduce the benefits of investments that are made.

One of the principal objectives of many international cartels is to restrict the establishment of new enterprises in their particular industries. *First*, they preclude by agreement the establishment by one member company of branch plants in a territory reserved to another member. *Second*, by dividing or allocating export markets, they reduce the incentives to secure advantages that might otherwise be sought under competitive conditions through establishing plants in such export markets. *Third*, they attempt to thwart efforts by noncartel participants to undertake new investments. This may be accomplished through such means as coercing potential suppliers of new enterprises to withhold raw materials, threats of dumping or indiscriminate price cutting and monopolization of patents and technical information.

Cartel-type agreements within domestic industries also have detrimental effects on the flow of investment capital. In most European countries, domestic cartels and trade associations have been successful in restricting the establishment and/or operations of new competitive enterprises in many fields. Furthermore, in a number of European countries, the associations are favored by national legislation. Laws in a number of countries require that those seeking to establish a new business must first obtain a license, securable only after the Government has consulted with the would-be businessman's competitors. In some countries there are also regulations applicable to a number of industries whereby all firms in such industries must submit to cartel discipline.

It should be noted that monopolies, as distinct from cartels, have also been successful in restricting the flow of investment capital into various countries. This has been accomplished, as in the case of cartels, through such practices as threats of discriminatory price cutting. It should also be noted that in many countries, particularly in Latin America and Africa, the local governments have given individual firms monopoly protection by restricting the establishment of new enterprises and importation of competitive products. Consequently, competitive interests seeking to invest in these areas, either for manufacturing or sales purposes, have been prevented from doing so. Even in those cases in which foreign investments are made (despite the existence of impediments caused by restrictive and monopolistic practices) the result is often to limit the potential extent of such investment or to subject the investor to unusual jeopardy.

Thus, it is important to examine the activities of the executive branch in dealing with these restrictive practices. The action which the United States Government has taken in this field is stated to have been instituted through enforcement of the United States antitrust laws, through administration of foreign unilateral programs of the United States, and through international forums and bilateral negotiations.

Of particular interest for the purpose of this report is clause (2) of section 516 (a) of the Mutual Security Act of 1951, as amended:

[It is hereby declared to be the policy of the Congress that this Act shall be administered in such a way as * * *.] (2) to the extent that it is feasible and does not interfere with the achievement of the purposes set forth in this Act, to discourage the cartel and monopolistic business practices prevailing in certain countries receiving aid under this Act which result in restricting production and increasing prices, and to encourage where suitable competition and productivity.

The investment guaranty program of the Mutual Security Agency is operated in line with United States anticartel policy. Applications for guaranties are screened to see that the proposed investments are not in conflict with this policy.

The draft treaties of friendship, commerce, and navigation which the United States has successfully negotiated with Italy, Uruguay, Ireland, Colombia, Greece, Israel, Denmark, and Japan also include a provision designed to combat such practices, as do the bilateral ECA/MSA agreements.

5. *International Bank for Reconstruction and Development*

The International Bank has concentrated on providing financial assistance in developing the basic facilities which are necessary for economic growth and the effective functioning of private enterprise. During 1952 the bank made loans for railway development and rehabilitation in Brazil, Colombia, and Pakistan; for electric-power development in Brazil, Mexico, Turkey, and Southern Rhodesia; for iron and steel production in India; for agricultural development in Pakistan and Peru; and for port development in Peru. At the end of March 1953 the total loans outstanding amounted to \$1,378,639,281, of which the equivalent of \$467,123,623 was in currencies other than dollars.

The bank has relied, in large part, upon private financial markets as the source of its funds. By the end of March 1953 it had marketed in the United States six bond issues totaling \$500 million in amount. In addition it has marketed the equivalent of nearly \$60 million of its bonds in the financial centers of Canada, England, and Switzerland. The bank has also sold from its portfolio of obligations due from borrowers, securities totaling \$65,669,908, of which nearly \$20 million is without the bank's guarantee. These bonds and other obligations are held by individual and institutional investors, and provide a channel for the investment of private capital in foreign economic development projects.

At the same time the bank has undertaken a substantial technical-assistance program of its own, designed primarily to help its members to draw up long-term programs of economic development. It is the bank's conviction that external financing, from whatever quarter, will be of most value in countries that are already making the best possible use of all available resources, public and private. In Colombia, for example, the stimulation provided by the bank's survey mis-

sion has resulted in a relaxation of exchange controls and the adoption of a more liberal and enlightened attitude toward foreign capital. In July 1952, the bank sent to the Colombian Government the recommendations of a financial expert, jointly retained by the Government and the bank, for measures to promote investment in industry and to improve the market for Government securities. Similar assistance is being extended to several other countries.

Spokesmen for underdeveloped countries have criticized the bank for the minor part of international financing that it does in the light of the requirement of these countries for accelerated economic development; costs of borrowing are too high (current rate is 4-7/8 percent for 20-year loans); the bank is "overcautious" in its estimate of borrowers' debt-servicing capacity; the bank requires excessive documentation, moves too slowly to consummate loans, and is generally unwilling to help finance the substantial local costs of development costs in underdeveloped countries.

X. ACCELERATION OF INVESTMENT OPPORTUNITY REPORTING

Section 516 (e) of the Mutual Security Act requires the Technical Cooperation Administration, in cooperation with the Department of Commerce and the Mutual Security Agency, to find and draw the attention of private enterprise to opportunities for investment and development in underdeveloped areas. One of the ways in which this can be accomplished is by increasing the quantity and quality of investment opportunity reporting. There follow a few samples of investment opportunities picked at random from various issues of the Foreign Commerce Weekly, published by the Department of Commerce. These opportunities were received, for the most part, in response to Foreign Service Reporting Circular No. 31 (for text, see appendix) and, in the main, cover underdeveloped areas. It is important for American business to receive as much information as possible before it can consider investing its capital abroad.

A. BRAZIL

[From the Commerce Weekly, October 6, 1952]

UNITED STATES AID SOUGHT FOR DEVELOPMENT OF BRAZILIAN LUMBER CONCESSION

The Fundacao Brazil Central, Rio de Janeiro, is interested in establishing a joint United States and Brazil enterprise to develop a lumber concession in the State of Para and invites capital and technical assistance from the United States. The Fundacao is an independent agency of the Brazilian Government whose function is the economic development of large areas in the interior of Brazil.

The area specified covers 30,000 square miles along the Tocantins River, 150 miles from the shipping port of Belem. Surveys to determine the location of stands of trees, such as mahogany, cedar, sucupira, and other commercial grades, indicate that minimum output will be approximately 500 cubic feet per hectare of valuable commercial species. In making the surveys, consideration was given only to trees of the minimum of 20-inch diameter at breast height, having well-formed boles, without visible defects, and whose physical and mechanical properties have been tested by the Yale Forestry School.

The Fundacao reportedly has been operating the concession less than a year, limiting its production exclusively to mahogany (*Swietenia macrophylla*) and red cedar (*Cedrella odorata*). Four thousand logs (70 percent mahogany) were produced in less than 6 months by a working crew of 60 men.

COMMERCIAL TIMBERS AVAILABLE

In addition, large stands of the following commercial timbers are said to be available:

Freije (*Cordia goeldiana*): Used in the United States for fine furniture under the name of "jennywood"; used locally for carpentry and as a substitute for teak in naval construction.

Goncalo alves (*Astronium fraxinifolium*): Very durable wood used for crossies, posts, and piling; exported as furniture veneer wood.

Massaranduba (*Minusops* species): Known as "beefwood" or "bullet wood" in export trade; very durable and used for crossies, general construction, and specialty products; makes excellent charcoal.

Piquia (*Caryocar villosum*): A large, widely distributed tree; durable hardwood used in boat decks and hulls as a teak substitute; fruit yields a grease used in soap and perfumes.

Sucupira (*Bowdichia virgiliodes*): A large tree producing very hard wood, resistant to decay; used for heavy durable construction.

Primitive extraction methods in use have made costs of production of mahogany and cedar virtually prohibitive, owing to the distance of these stands from waterways, reports the Fundacao. Although extraction of the other commercial timbers is considerably easier because of their close proximity to the rivers, the Fundacao considers that mobile equipment and machinery is necessary for efficient and profitable exploitation of the concession.

FOREIGN PRIVATE CAPITAL SOUGHT

Since the Fundacao has neither the technical and commercial organization nor the funds to permit efficient operation of the concession, it seeks investment of foreign private capital, and states that any portion or all of the 30,000-square-mile concession would be turned over to the investing company under conditions to be determined by negotiation.

Available facilities include the Government railway administered by the Fundacao and running from the town of Tucuriu (formerly Alcobaca) parallel with the Tocantins River for 75 miles through the jungle; a 12-ton-capacity steam crane on the side line at Tucuriu; a small sawmill with equipment consisting of a circular saw, 2 edgers, and 1 cut-off saw; and a 200-ton-capacity steamboat which operates on the Tocantins River from Belem south. The 4,000 logs, 2,000 of which are still in the forest, would be made a part of the initial production.

The Fundacao is unable to specify the amount of investment necessary, but suggests that the commercial prospects appear to justify a trip to Brazil by an interested party, at which time requirements could be estimated.

For further information, firms should correspond with Dr. Archimedes Pereira Lima, president, Fundacao Brazil Central, Service de Exploracao de Madeiras, Av. Nile Pecanha 23, Rio de Janeiro.

[From the Commerce Weekly, March 9, 1953]

BRAZIL'S POTENTIAL OPPORTUNITIES MAY INTEREST UNITED STATES INVESTORS

The National Economic Council, Rio de Janeiro, Brazil, has issued a list of manufacturing industries considered to be advantageous to the Brazilian economy, which may be of interest to United States investors seeking manufacturing opportunities in Brazil.

Among the industries listed are raw materials, consumer goods, machinery and appliances, mining, agricultural, and livestock.

Factors considered in preparing the list—determined by the results of a survey made by the Council to provide information on industries the Brazilian Government is particularly interested in developing—include the following:

Volume of imports of the product.

Essentiality of the individual article produced.

Availability of domestic raw materials for the establishment of an industry producing a specified article.

Existence of know-how, or of services for creating know-how.

Amount of investment involved.

Possibilities of adding to an already established industry, or developing the proposed industry in combination with other new industrial establishments.

The list is classified as to industries which could be developed in the near future and those which do not lend themselves to early development. Inclusion in the latter category was based on such factors as large amount of investment required, need for substantial technical services, restricted market for the products of the industry, and exceptional difficulties with respect to raw material supply.

As specific opportunities are developed, they will be reported in this section of Foreign Commerce Weekly. Meanwhile, interested United States firms may obtain copies of a partial list, based on the compilation issued by the National Economic Council, from the Commercial Intelligence Division, United States Department of Commerce, Washington 25, D. C., or from the Department's field offices.

To assist potential investors in evaluating possibilities for investment in Brazil, the Department has issued a study entitled "Establishing a Business in Brazil" (BIS, World Trade Series No. 324) available for 40 cents from the United States Department of Commerce, Washington 25, D. C., or from the Department's field offices.

B. INDIA

[From the Commerce Weekly, December 1, 1952]

INDIA PLANS TO EXPAND ITS STEEL INDUSTRY

A delegation of Indian Government officials has been in the United States since early in November for discussions with the International Bank for Reconstruction and Development relating to expansion of India's steel industry. The group also is exploring the possibilities of interesting United States industrial and financial circles in establishing a new steel plant in India.

India's steel industry is said to be one of the basic industries accorded highest priority for immediate development. Expansion plans envisage a better than 50-percent increase by 1955-56 over the industry's present annual output of 1,000,000 tons of steel and 1,800,000 tons of pig iron.

The delegation, with headquarters at the Indian Embassy in Washington, consists of C. C. Desai, Secretary, Ministry of Works, Production and Supply; S. Bhoothalingam, Secretary, Ministry of Commerce and Industry; and P. C. Bhattacharyya, Secretary, Economic Committee of the Cabinet and Joint Secretary, Ministry of Finance.

C. FRANCE

[From the Commerce Weekly, December 8, 1952]

FRENCH FIRMS INVITE UNITED STATES PARTICIPATION

Three French firms wishing to expand and develop their operations are inviting United States investment of capital and equipment. Participation of United States firms, in the form of patents, processes, and techniques, also is desired.

PACKING-CASE FIRM TO EXPAND

Societe Francaise d'Emballages en Bois Arme, a French firm engaged in the manufacture of all kinds of packing cases, invites United States participation in the form of capital, equipment, patents, processes, and techniques, to permit expansion of its operations.

The firm presently specializes in packing cases made of wired wood under a manufacturing license granted by a British firm, and it is particularly interested in enlarging this phase of its production. According to the firm, a large potential marketing exists for the wired wood packing cases in commercial and industrial fields, in addition to requirements of the French Army which reportedly is already purchasing substantial quantities.

Correspondence should be addressed to Societe Francaise d'Emballages en Bois Arme, 17 Faubourg du Temple, Paris 10e, France.

FOOD PRODUCER PLANS TO ENLARGE

Etablissements Houque, a French manufacturer of specialty foods and confectionery, reportedly has unused buildings and land which the firm desires to utilize for the production of spaghetti, vermicelli, and other products of Italian paste, said to enjoy a large demand in France.

To carry out this expanded production, Etablissements Houque invites American participation in the form of capital, equipment, and processes to be provided under any mutually satisfactory agreement.

Further information may be obtained by corresponding with Etablissements Houque, 47 rue de l'Arquebuse, Auxerre (Yonne), France.

TEXTILE PRODUCER SEEKS CAPITAL

A French manufacturer of cotton sheeting and toweling wishes to collaborate for purposes of expansion with an American firm which would supply capital and modern equipment to produce fabrics suitable for the dress trade. The French firm would undertake distribution of such lines locally.

Interested parties are invited to communicate with Maison J. Steinitz, Tissage "France-Tissus," Pouilly-les Nonains (Loire), France.

D. BELGIUM

[From the Commerce Weekly, December 15, 1952]

BELGIAN FOUNDRY FOR SALE TO UNITED STATES FIRM

A United States firm interested in purchasing and operating an established foundry in Belgium is sought by S. A. Normes. This Belgium concern reportedly is a medium-sized modern factory located in Familleureaux, Belgium, with cast-iron foundries, metal foundries, and large machine shops.

The factory has a high-power electricity transformer station, and is connected with a large gas line and a railroad. It is fully equipped, having a capacity for 300 to 400 workmen, and includes warehouses and modern offices.

Cast steel, cast iron, and metal valves of all kinds are being manufactured, but it is stated that installations could readily be converted to permit production of other industrial items. For instance, the factory has in the past repaired tanks and trucks and manufactured bedsteads for the United States Army.

Additional descriptive material, including an engineering survey, together with inventory and appraisal of the property (all in French), may be obtained for review purposes on loan from the Commercial Intelligence Division, United States Department of Commerce, Washington 25, D. C.

Interested persons are invited to correspond with J. O. W. Achenbach, General Manager, S. A. Normes, 20 Rue du Luxembourg, Brussels, Belgium, who will arrange for inspection of the property, if desired.

E. EGYPT

[From the Commerce Weekly, January 26, 1953]

EGYPTIAN CHEMICAL FIRM DESIRES UNITED STATES CAPITAL

Capital participation by interested United States firms or private individuals is sought by Chemical Industries Development, S. A. E., Cairo, Egypt. The firm manufactures, imports, exports, and distributes pharmaceutical products and proprietary medicines.

The company now manufactures 12 items and has licenses and permits from the Egyptian Government to manufacture about 30 more. Products now manufactured include sedatives, chlorophyll deodorants, barbiturates, infant's colic preparations, sulfa drugs, cold and neuralgic medicines, and insecticides. It also has a license agreement with an American pharmaceutical company to repackage antibiotics and distribute them under the American name brand.

It is reported that the firm has a fully paid-in capital of £E200,000 which has been invested in a modern new pharmaceutical laboratory located on the Pyramids Road close to Cairo. The plant was built according to American specifications, using American technicians and equipment.

Present annual capacity is quoted at 150 million tablets, 10 million ampoules (all types), 4 million vials of penicillin and streptomycin, 6 million bottles of sirups and other liquid remedies, 1 million tubes of unguent preparations, and 3,000 kilograms of alkaloids and active essences of medicinal plants.

The firm also maintains a 90-acre herb farm at Aboul Matamir, near Alexandria, where two laboratories extract medicinal and aromatic essences and powders from which sizable quantities of khellin and chlorophyll are exported.

Interested parties are invited to correspond direct with Chemical Industries Development, S. A. E., 2 Sharia Naguib El Rihani, Cairo, Egypt.

F. TURKEY

[From the Commerce Weekly, September 29, 1951]

TURKISH PLANT SEEKS UNITED STATES CAPITAL

United States capital and management participation is sought by Makina ve Kimya Endustri Kurumu (the Establishment for Mechanical and Chemical Industries), Ankara, Turkey, for the establishment of a nitrogen-fertilizer factory in Turkey.

Based on a study of the market, availability of raw materials, transport facilities, and other factors involved in the economical operation of such a plant, MKEK contemplates manufacturing the following products in annual quantities as indicated: 6,000 tons of nitric acid, 98 percent pure, for dynamite and explosives; 2,000 tons of ammonium nitrate, pure, for dynamite; 3,000 tons of urea, industrial with 46 percent N₂, for plastics and garden fertilizer; 75,000 tons of ammonium nitrate and ammonium sulfate, industrial with 26 percent N₂, for fertilizer; and 41,000 tons of ammonium nitrate and calcium carbonate, industrial with 20.5 percent N₂, for fertilizer.

To finance needed equipment, MKEK estimates that US\$17,000,000 foreign capital will be required. An American firm participating in this venture would be permitted to exercise managerial control, at least until the success of the operation is assured.

A detailed prospectus for the proposed plant is available on a loan basis from the Commercial Intelligence Division, United States Department of Commerce, Washington 25, D. C.

Interested parties are invited to correspond with Celal Imre, general manager of MKEK. Mr. Imre reportedly has indicated that MKEK, a Turkish Government enterprise, is completely exempt from the adjudication law for sales, purchases, construction, or major repairs, to which other Turkish Government agencies are subject.

G. NETHERLANDS

[From the Commerce Weekly, February 9, 1953]

UNITED STATES AID DESIRED BY NETHERLANDS FIRM

United States capital participation is sought by Aluminum-Industrie "Zelime," a Netherlands manufacturer of special aluminum products such as folding rules and milk tanks.

The company states that with the necessary investment it could produce additional articles.

Present facilities include an eccentric press, air compressor installation for pneumatic work, and argonarc welding installation.

Further information may be obtained by writing direct to J. Bakker, Aluminum-Industrie "Zelime," B 28-29, Gapinge (Walcheren), the Netherlands.

XI. UNITED STATES TAX INCENTIVES

A. IMPORTANCE OF INCENTIVES

One of the important means of stimulating American private investment to take a greater part in the Mutual Security Program involves the practical inducement made possible by United States tax incentives. The importance of such incentives was stressed by the Honorable Samuel W. Anderson, Assistant Secretary for International Affairs, Department of Commerce, during his testimony before the subcommittee:

If we are serious in our belief, and I think we should be, that the interests of the United States will, in the end, be greatly served if our reservoirs of capital are increasingly capable of sound investment abroad, then what we can do to stimulate those seems well worth careful thought in all directions.

The chairman of the subcommittee, the Honorable Jacob K. Javits, raised the question whether or not some inducements in the way of tax provisions will have to be made in order to really stimulate American private investment abroad. In this connection, Mr. Anderson elaborated upon his previous point during the following interchange:

I think it might be very helpful. As you know very well, of course, there is a certain risk of double taxation of income earned abroad which is taxed abroad and then subsequently, in part, taxed in the United States as well. There is the question of the definition of income versus amortization and depreciation in the several countries which, I think, should be carefully restudied. There is even the rather thought-provoking notion, as suggested by a private citizen the other day, that perhaps the instrument which has been so successful here domestically, namely, accelerated amortization, could be applied, if you chose to do so, to those American industries and private enterprises which contemplate investment abroad but who are not able to look very far ahead in their risk thinking. Perhaps, without ultimate substantial loss to the United States Treasury, it might be feasible to allow a certain accelerated amortization of that investment balanced against domestic earnings, thereby paying lesser taxes now. But, if the investment pans out well over a period of time, the Treasury, through repatriation, would recoup any losses of the earlier years. It is a rather novel idea, and one, I think, which deserves to be thought out a little bit.

Mr. JAVITS. It is an idea I have been working on myself. It is analogous to the 5-year amortization we give for defense facilities. This would also require a certificate that it aided the foreign policy of the United States. I think it may prove feasible.

The Honorable Eric Johnston in his testimony before the subcommittee also stressed the importance of tax incentives:

We have in the statute books a Western Hemisphere preference on tax rates— income-tax rates which gives a corporation investing in enterprise in the Western Hemisphere a 14-point benefit or credit—approximately 14 points—on earnings on money thus invested in the Western Hemisphere. In other words, if our normal tax is 52 percent, corporations investing in the Western Hemisphere have a tax rate on those investments of 38 percent, which is a very substantial stimulus to the flow of private capital abroad. A very large percentage of the new money which went outside the United States last year went into the Western Hemisphere. Personally, I would like to extend this 14-point tax benefit to American money to all parts of the free world—not only to the Western Hemisphere. I think that is one of the things that we can do. Now there are other inequalities in the tax laws which I think should be remedied, and I believe others in the administration feel so, also. These are highly technical things, but they are deterrents to the flow of capital. For instance, a subsidiary of an American corporation abroad does not need to report its income along with its American earnings, until that subsidiary repatriates its earnings to the United States. In other words, if the earnings are left in the foreign country, no tax on them is paid in the United States. But a branch of an American corporation must report its earnings invested abroad

in the current income of its parent company, even though those earnings are not repatriated. Now that works a material hardship upon branches as against subsidiary corporations and yet there are various reasons why subsidiaries in certain areas are not advisable because, in some of these countries, to have a subsidiary corporation you must have a board of directors composed completely of natives of the host country. You must do certain other things which sometimes are very difficult for an American corporation to do. So, I think that American branch corporations should be given the same treatment as subsidiary corporations abroad.

B. WESTERN HEMISPHERE TRADE CORPORATIONS

With respect to such Western Hemisphere trade corporations, in enacting section 109 of the Internal Revenue Code, the Senate Finance Committee stated in its report on the Revenue Act of 1942:

American companies trading in foreign countries within the Western Hemisphere are placed at a considerable disadvantage with foreign corporations under the tax rates provided by the bill. To alleviate this competitive inequality, the committee bill relieves such corporations from surtax liability.

Under this law, corporations (1) doing all their business in the Western Hemisphere, and (2) deriving 95 percent of gross income from sources outside the United States and (3) deriving 90 percent of gross income from the active conduct of a trade or business are eligible for a reduction of tax amounting to 14 percentage points if they are subject to both normal and surtax. Small corporations subject only to the normal tax get reduction of 8 percentage points (sec. 109, Internal Revenue Code).

The subcommittee was told that it would seem appropriate for the United States Government to take some action to stimulate foreign capital investment by an extension to all areas of the world of the same tax rate now applicable to Western Hemisphere trade corporations.

C. TREASURY ATTITUDE

The subcommittee has noted, with great interest, recent statements by officials of the Treasury Department that the tax treatment of business income earned in foreign countries is presently being reexamined with a view to making specific recommendations to the Congress. For example, in an address on April 16, 1953, Mr. Marion B. Folsom, Under Secretary of the Treasury, said:

The proper taxation of income derived abroad raises difficult and important problems of tax policy. International double taxation should clearly be avoided. The provisions for crediting foreign income taxes against the United States income tax represents one attempt to remove such double taxation. The present treatment, however, may not be adequate. Modifications of the existing law must be made with care, however, to prevent the creation of loopholes through which domestic income is in some way converted into tax-exempt foreign income.

The attitude of the Treasury was further elaborated in the recent statements of Mr. Dan Throop Smith, assistant to the Secretary of the Treasury, before the United Nations Fiscal Commission. (See pp. 13-14, above, for the resolution adopted by the Commission on this subject, and an excerpt from Mr. Smith's statement in support of the resolution.)

The subcommittee is particularly concerned that the question of tax incentives for foreign investment not be approached solely from the standpoint of the revenue involved, but that foreign economic

policy considerations also be taken into account. It welcomes the Treasury's reexamination of the subject, and hopes that its recommendations will be forthcoming at an early date.

D. SOME TAX INCENTIVE PRECEDENTS

In addition to the Western Hemisphere trade corporation tax incentive, there have been cited numerous other precedents in United States law for the granting of tax incentives:

1. *Exemption from tax on income derived from United States possessions*

Feeling that it was desirable to have American citizens go to United States Possessions, most of which came under our control after the Spanish-American War, the Congress passed section 251 of the Internal Revenue Code, which provides that any United States citizen or domestic corporation is completely exempt from United States income tax derived from and received in such Possessions, or in any foreign country, if 80 percent of the gross income is derived from sources within the Possessions and 50 percent thereof from the active conduct of a trade or business within the Possessions.

A few years ago Puerto Rico passed a law which in effect supplements section 251. It exempts new industries going to Puerto Rico from Puerto Rican tax for a certain period of years. Accordingly, a new industry going there is free from both United States Federal tax and all insular taxes. Current statistics indicate that 200 industries have established themselves in Puerto Rico as a result of this combined inducement.

2. *Exemption of compensation for personal services*

As a result of a recommendation of the point 4 private investment program, Congress effected a change in the Revenue Act of 1951, liberalizing the provisions granting tax exemptions to wages, salaries, and other compensation for personal services received by United States citizens who establish bona fide foreign residence. At the same time the 18-month rule was enacted, granting exemption on compensation for personal services rendered abroad, to individuals who are outside the United States for approximately 17 out of 18 consecutive months.

3. *Postponement of tax on profits*

Corporations operating abroad through foreign subsidiaries may reinvest their earnings abroad without paying any United States tax, such earnings becoming taxable only to the extent they are returned through dividends to the parent United States corporation.

4. *Excess profits tax exemption*

Profits of domestic corporations confining their business activities largely to overseas operations are completely exempt from excess-profits taxes, providing they derive 95 percent of their gross income from sources outside the United States and 50 percent from the active conduct of a trade or business.

5. *Depletion allowance for oil*

Oil became very scarce during and after World War I. There was serious concern in this country and in Congress over the possibility of a shortage. Congress, therefore, amended the income-tax law granting a depletion allowance to oil and gas companies amounting

to 27 percent of the net annual income. This was very effective and successful since the allowance is applicable with respect to properties both in the United States and abroad.

E. JUSTIFICATION

The arguments pro and con for granting tax incentives to stimulate private capital investment abroad were stated by the International Development Advisory Board during the hearings before the subcommittee:

Arguments against granting tax incentives to stimulate private capital investment abroad are usually based upon the theory that it would be inequitable to tax one citizen in a different manner from another. This, however, is fallacious since it assumes that all citizens derive their income from sources which enjoy equal benefits and protection from the United States Government. Or in other words, that taxation is a duty of citizenship which is equally enjoyed by all. The fact that must not be forgotten, however, is that investors in the so-called underdeveloped countries of the world are subject to many risks not encountered in domestic investment such as differences in methods of doing business in foreign countries, unfamiliar laws and customs, frustrating restrictions on management, restrictions on the number of personnel it can import from outside of the country where the investment is made, new and increased foreign taxes which, under the definitions contained in the Internal Revenue Code, may or may not be credited against the United States tax, numerous exchange restrictions, export and import quotas, controls, risk of expropriation, etc.

The Treasury Department estimates the net amount of tax realized on United States investments abroad to be approximately \$400 million per annum. If the law were changed to permit total exemption on income derived from foreign sources, the dividends paid to United States stockholders by corporations operating abroad would nevertheless be taxed and would therefore most likely recoup to a considerable degree the original tax loss from this exemption. In addition, when one considers the benefits that would arise through such tax exemption in the way of stimulating foreign investment, which in turn would increase foreign trade, help to cut down the dollar imbalance, and help to improve the living and working conditions of the people in the underdeveloped areas, it is a pretty low price to pay.

XII. RECOMMENDATIONS

There follow major recommendations made in the hearings before the subcommittee or brought to its attention, which are included in this report in consolidated form:

A. TAX INCENTIVES

The provisions of section 109 of the Internal Revenue Code which established tax incentives for Western Hemisphere trade corporations should be extended to all areas of the free world. In this way the same tax rate now applicable to Western Hemisphere trade corporations would be applicable to American enterprise in other areas of the free world.

Corporations operating abroad through foreign subsidiaries may reinvest their earnings abroad without paying any United States tax, such earnings becoming taxable only to the extent they are returned through dividends to the parent corporation. Branches should receive the same treatment as subsidiaries.

New investments overseas meeting standards to be established by the Director for Mutual Security and certified for that purpose should have the benefit of accelerated amortization over a 5-year term.

B. JOINT VENTURES

American capital should invest abroad in partnership with the capital of the host country insofar as possible. This decreases the risk of nationalization or confiscation and at the same time decreases the very real concern in the minds of people of other countries that the influx of American capital means economic domination by American capital.

The joining by American capital with local capital and management in the formation of jointly owned enterprises, encouraged by the Governments of the United States and the local country, offers an important pattern for the future. In this connection reference is made to the following quotation from the report of the Inter-American Study Mission of the Committee on Foreign Affairs undertaken in November 1951 (H. Rept. No. 1454, 82d Cong.):

The presence of numerous American enterprises with large capital investment particularly in a country with a sensitivity to nationalism, requires that American business give increased attention to its public relations with the peoples of that country. The bitter experience of the British in Iran should serve as a warning that continued governmental and popular support for American enterprises is dependent upon an acute awareness of local aspirations and plans. Many American businesses in Venezuela are endeavoring to bring more and more Venezuelans into participation in their particular enterprises. The study mission believes this is a desirable trend and should be encouraged.

Along these lines, the American Cyanamid Co. recently announced the opening of a drug plant in India. Under arrangements with Indian bankers and businessmen, American Cyanamid put up 10 percent of the paid-in capital while Indian nationals own the rest of the company. Another example is the recent agreement between Standard-Vacuum Oil Co. and the Indian Government for construction of a \$35 million refinery in Bombay, where 25 percent of the capitalization of the new Indian company will be available to Indian private capital on a preference-share basis. Other petroleum companies have negotiated similar agreements.

The Chase Bank of New York and the International Basic Economy Corp. have organized an investment bank in Brazil, in which a number of Brazilian banks will subscribe a large share of the total initial capital of 50 million cruzeiros (\$2.5 million). The purpose of the new institution is largely to stimulate local investment activity through assisting local enterprises, fostering the sale of securities in Brazil, and the like. In 1950 American & Foreign Power Co. met unexpected success in developing an active market in Brazil for the securities of its subsidiaries there. More than half a million shares in one subsidiary were sold to Brazilians of all economic levels, who thereby participated in financing the expansion program of the subsidiary.

The American Viscose Corp. recently concluded an agreement with a Colombian firm whereby it will offer its technical assistance, training facilities, and some capital in the establishment of the Colombian manufacturing concern.

Similar types of joint arrangements have been found useful by other American companies throughout the world. United States firms are finding it to be their advantage, from the standpoint of good will, familiarity with local customs, and ease in dealing with local governments, to enlist the participation of local investors in their projects.

C. CENTRALIZED SUPERVISION AND DIRECTION

There should be established within the Executive Department an agency which will—

1. Be adequately staffed and equipped to maintain a continuous study of all phases of governmental activity in stimulating private investment abroad;
2. Serve as a central clearinghouse of information which may be required by American business and by governments and business abroad;
3. Be accountable to the Congress with regard to all aspects of United States activities in the field of foreign investment;
4. Be chargeable with responsibility for implementing executive and legislative policy regarding American foreign capital abroad.

Study of the organizational charts on pages 4-7, above, reveals the large number of executive agencies concerned in one way or another with the problems of private enterprise abroad. In no single agency does there exist an adequate branch, either from the point of view of personnel, competence, or authority to deal with the total aspect of private investment abroad as a progressive arm of American foreign policy. Although the Director for Mutual Security has certain responsibilities for coordination and supervision, under section 501 of the Mutual Security Act, his activity in this regard is limited to the Department of State, the Mutual Security Agency, and the Technical Cooperation Administration. The multiplicity of Government agencies concerned with the various aspects of foreign investment makes a high level focal point of coordination essential. To list the principal agencies and some of their relevant responsibilities is sufficient evidence of this necessity:

- | | |
|--|--|
| 1. Department of State..... | Friendship, commerce, and navigation treaty negotiations, diplomatic protection and espousal of claims, plus overall foreign economic policy implementation. |
| 2. Department of Commerce..... | Relations with, and assistance to, American businessmen. |
| 3. Department of Treasury | Double tax treaties; tax policy concerning foreign earned income. |
| 4. Securities & Exchange Commission. | Regulation of foreign security flotations. |
| 5. Federal Reserve Bank..... | Regulation of foreign banking operations. |
| 6. Export-Import Bank and 6 agency National Advisory Council. | Development of foreign lending policy in ways which give maximum stimulation to the use of private capital resources. |
| 7. Director for Mutual Security, Technical Cooperation Administration, Mutual Security Agency. | The formulation and administration of economic and technical assistance in ways which stimulate maximum private participation in foreign development. |
| 8. Defense Materials Procurement Agency. | The development by American companies of foreign sources of basic materials. |

D. GUARANTIES

Commendable as may be the activities of the Mutual Security Agency in publicizing the guaranty program in accordance with legislative mandate, the fact is that not one guaranty has been written for a Latin American project, despite the strong investor interest in that area. The Mutual Security Agency maintains that this is due to the

poor response of the Latin American countries themselves. It does not appear, however, that the extension of the program to Latin America has been undertaken with vigor and imagination. Only seven countries have been approached. There is no evidence of any efforts to modify the policies under which the program has operated in Europe to adapt it to the Latin American situation -no attempt to work this out with the Latin American Republics. Insistence by the executive branch on initiating the program in new countries through formal international agreements (not required by guaranty legislation) has been a stumbling block in some countries. It has been stated that the potentialities of the guaranty program can be defeated by this lack of flexibility, and that the best way to get started in the politically sensitive countries is with formal assurances applicable to specific cases and not necessarily formalized international agreements. Assurances from foreign governments should be kept to a minimum, and used primarily to deter voluntary adverse actions by foreign governments.

Because of the disappointing progress of the guaranty program in the underdeveloped areas, it has been recommended that new legislation be enacted expressing congressional intent that vigorous action be taken by the Mutual Security Agency to make guaranties more readily available on a wider basis. Accordingly, the proposal in Mutual Security Program legislation before the full committee should be endorsed extending the program to countries not directly participating in the Mutual Security Program (sec. 605 (c)), and the following amendment to section 516 (b) of the Mutual Security Act should be adopted:

Add at the end of section 516 (b):

and, in order to make guaranties as widely available as possible, is authorized to adapt to the circumstances of particular countries any governmental arrangements which may be deemed necessary to operate the guaranty program.

There should also be adopted the proposals in the Mutual Security Program legislation now before the House Foreign Affairs Committee explicitly providing coverage in investment guaranties for war, revolution, or civil disorder and providing for a 20-year maximum term for guaranty contracts.

E. PUBLICIZING ECONOMIC AND SOCIAL BENEFITS

There are many economic and social benefits which American private enterprise has brought to the countries of the free world. It is part and parcel of United States policy that this should be so. As a pattern for the future, consideration should be given to a program, by our Government and by private enterprise groups, of publicizing these benefits, and of stimulating a desire by underdeveloped countries to take those measures which will encourage private enterprise, both local and foreign. In this connection, the publication, *Sears, Roebuck De Mexico, S. A.*, the first in a series of case studies by the National Planning Association on United States business performance abroad, is a commendable start in this direction. Objective studies of cases in which United States business management has taken positive steps toward raising the living standards of underdeveloped countries can help dispell the psychological barriers to increased investment of private capital.

F. SPECIAL ENVOY

A special envoy should be selected by the President from American business or industry (which includes management, labor, investors, and farmers) who is a recognized leader, fully aware of the implications of United States foreign economic policy. It would be his responsibility to visit as many underdeveloped countries as possible and to emphasize the importance which the United States attaches to a sound and rapid economic development of the nations of the free world. It would be part of his responsibility to impress upon the governments of these countries that enlightened American capital can make a material and constructive contribution, technical as well as financial, to economic progress and the raising of standards of living in the underdeveloped countries.

G. TREATIES OF FRIENDSHIP, COMMERCE, AND NAVIGATION

The program of the Department of State for the conclusion of friendship, commerce, and navigation treaties, containing assurances of fair treatment of American investors and ratification of the five friendship, commerce and navigation treaties signed with Colombia, Denmark, Greece, Israel, Ethiopia, and the supplementary one with Italy, should be accelerated. Problems delaying such actions may be dealt with by shortening the term of treaties to allow of future negotiation and including reservations in ratifications.

The Department of State should enlist the support and cooperation of existing major business organizations as well as labor unions and farm organizations in connection with the negotiation of individual friendship, commerce and navigation treaties. This could be done by the establishment of a Business Advisory Committee for Commercial Treaties. In this connection, American business in a country with which negotiations are undertaken should be contacted for their views and guidance well in advance of the actual negotiations. The mechanism of a business advisory committee must not rubberstamp the work of the Department, but must be prepared and organized for constructive participation in policy formation and implementation.


H. BALANCING THE NEEDS

Underdeveloped countries should accommodate their development programs to their needs. This means a balanced development, balanced between agriculture and industry, domestic financing and foreign investments. Such a policy will be possible only with more foreign capital for development.

I. WIDER USE OF INTERNATIONAL AND EXPORT-IMPORT BANKS

The United States should help and encourage the International Bank to extend its important operations in mobilizing private capital for international investment in development and should consider methods of increasing the usefulness of the International Monetary Fund for this purpose.

The Export-Import Bank should be much more closely associated with our economic and technical assistance programs, with a view to



its undertaking more initiative in stimulating projects which are necessary to balanced economic development, but which are inappropriate for intergovernmental grant or loan assistance. As Mr. August Maffry pointed out in his report of December 18 to the TCA Administrator, we have not begun to use the full potentialities of the Export-Import Bank—particularly in providing loan capital on attractive terms to domestic corporations willing to extend their operations in foreign countries, and to foreign corporations, for projects furthering local economic development.

The Export-Import Bank enjoys a reputation in Congress and in the business community which is unique among Government-financing agencies. Many of its loans at the present time are to private enterprises, without foreign government guaranties, and involve joint financing by the Export-Import Bank and private companies. What is being suggested here is not more loans involving a higher risk factor, but rather a much higher rate of the same kind of lending that is now taking place. Instead of acting only upon loan applications coming to it, the bank should assume more of the role of an investment banker, looking for projects and providing the link between the project and the private investor, with such financial participation itself as may be required to bring the project to fruition. This need not be a more risky type of operation and, if properly presented, need not jeopardize the existing prestige and financial standing of the bank. Moreover, this can be undertaken within the present statutory authority of the bank, except for the additional financial resources that might be necessary, although obviously full consultation with Congress should take place before the direction of bank activity is substantially changed in this regard.

If the business and financial community knew that the Export-Import Bank was prepared to operate with considerable more flexibility, it would itself undertake more initiative in developing projects for joint financing with the bank.

J. COOPERATION BETWEEN PRIVATE ENTERPRISE AND FOREIGN COUNTRIES

As stated in the National Planning Association's recent publication, *The Case Study of Sears, Roebuck de Mexico, S. A.*—

A basically private enterprise economy in less developed countries, of which well-managed United States private enterprises can well be a part, provides strong insulation against communism and political instability. Therefore, it is to the national interest of the United States to have "policies" that promote enlightened and well managed United States enterprises abroad. Conversely, it is in the best interests of all parties concerned that the United States Government use its influence to promote cooperation between United States private enterprises abroad and the countries in which they operate.

To the same effect is the recent recommendation made by the Mutual Security Agency evaluation teams of business executives appointed by the Director for Mutual Security—

that we cooperate with those countries needing capital in their efforts to create an atmosphere that will attract private investment funds from other countries including the United States.

31156-53-7

K. OVERALL POLICY

Heretofore business has been considered as a primary means for producing the goods for our domestic and foreign commitments and for our defense. Business has rarely been considered as a powerful arm of our foreign policy both in terms of wealth production and in terms of improving the standards of living of other peoples we wish to keep free. Yet the prestige of America has been built upon the productive power of business. That is the model which all the world wishes to copy. At a time when an all-out effort during our generation may well secure the peace and well-being of the world for centuries to come we cannot fail to call for utilization of the instrument of our greatest power and prestige in peacetime—American business and American production.

JACOB K. JAVITS, *Chairman*.
DONALD L. JACKSON.
KARL M. LECOMPTE.
LAURIE C. BATTLE.
BURR P. HARRISON.

APPENDIXES

APPENDIX I

DEPARTMENT OF STATE—FOREIGN SERVICE

Economic Reporting Circular No. 31, July 20, 1951

REPORTING OF SPECIFIC OPPORTUNITIES FOR PRIVATE INVESTMENT AND PATENT-LICENSING

1. Purpose

The purpose of this circular is:

a. To prescribe the methods of handling requests of private persons and firms for assistance in obtaining:

- (1) Private investment funds from United States sources;
- (2) License to utilize United States patents, trademarks, copyrights, or technical knowledge ("know-how"); or conversely, to convey the rights to their own patents or formulae to an interested United States licensee.

b. To guide reporting officers in the preparation and submission of reports on specific opportunities for private investment and/or licensing of patents, trademarks, et cetera.

This circular relates only to specific opportunities and does not cover Government-sponsored plans and programs for public works, hydro-electric systems, and other long-range Government development projects.

2. Use

The information received will be used to facilitate the flow of private investment capital abroad, and the exchange of technical processes. It will be disseminated by the Department of Commerce to private individuals and business firms in the United States who are potential foreign investors, licensors or licensees.

3. Reference or Background Data

Through the negotiation of treaties and trade agreements, the international technical assistance and other development and assistance programs, and other means, the United States Government is assisting other countries to improve the climate for private foreign investment. Primary emphasis is placed on the need to foster an expanded flow abroad of private investment capital. United States Foreign Service posts have already received copies of basis publications relating to the foreign investment program, such as the Foreign Economic Assistance Act of 1950 (Public Law 535, 81st Congress); State Department publication No. 3719, "Point Four", released in January, 1950; copies of treaties and agreements; and copies of the report to the President of the International Development Advisory Board, "Partners in Progress", issued in March, 1951.

4. Types of Opportunities To Be Reported

4.1 This circular focuses entirely on the reporting of specific private investment and patent-licensing opportunities of the type heretofore publicized in the "New World Trade Leads" section of the Foreign Commerce Weekly, prepared by the Department of Commerce largely on the basis of information submitted voluntarily by Foreign Service reporting officers. The active cooperation of Foreign Service personnel in promptly reporting any promising opportunity of the following types is solicited:

a. Investing in new plants abroad; full or partial purchases of new foreign enterprises such as plants, utilities, mines, plantations, et cetera, existing or projected, incorporated or unincorporated.

b. Licensing to foreign firms of American-owned patents, trademarks, secret formulae or copyrights, with or without the investment of further capital, and with or without a share in management by the American owners.

c. *Licensing* to United States firms of foreign-owned patents, trademarks, formulae or copyrights. (Foreign countries have received considerable dollar exchange through this medium.)

d. *Supplying American know-how* regarding industrial processes and techniques, as distinct from the grant of patent rights. This may involve the hiring of American engineers and technicians, for long or short periods; it frequently is tied in with the purchase of American machinery and equipment. Many American processes are not patented abroad, their protection being assured by the experience, skill and special equipment of the manufacturer.

4.2 If the investment climate in its area is such that any local private investment or licensing proposals would be voided of real opportunity (for example, if the expropriation of private enterprise is a common act of the existing government), the post should report this fact, with an explanation of the situation, as soon as possible after receipt of this circular.

5. General Instructions

5.1 Assistance to Applicants

Foreign Service personnel are encouraged to lend every possible appropriate assistance to applicants for private United States capital and patent licenses, and to potential United States investors visiting the area.

It will be in order for officers to display, to local bankers, commercial lawyers, selected government officials, and members of the local American business community, the sample leaflet of example published investment and licensing opportunities, or alternatively, the pertinent section of any issue of the *Foreign Commerce Weekly*, and to describe the facilities available for giving similar publicity in the United States to meritorious local projects. Efforts should be made to coordinate the Foreign Service activities with those of the local staff of the Economic Cooperation Administration, technical advisers and economic development personnel, where available. In this connection, it is desirable to point out that the Economic Cooperation Administration, through its Office of Small Business, is already engaged in promoting live interest in private foreign investment and licensing opportunities, working respectively through the Small Business officers in the ECA Missions abroad and the ECA Small Business counselors who are located throughout the United States.

When prospective United States investors approach the mission, every effort should be made to put them in touch with local individuals or groups which might have an interest in capital or technical assistance in the field which the visitor represents, and to supply them with pertinent information regarding local conditions.

5.2 Briefing of Applicants

At the time of presenting his application, each applicant should be clearly informed:

a. That while the United States Government is interested in assisting his country to improve its investment climate, it can assume no sponsorship of any private application, and no responsibility in connection therewith; that our Government is merely endeavoring to facilitate the free and unrestricted availability of United States investment capital and technology to foreign firms through arrangements arrived at by voluntary and unrestrictive agreements between foreign and United States firms.

b. That the primary function of the Foreign Service in these matters is to supply to the Department of Commerce in Washington as complete information as possible regarding each application, for dissemination to potential investors.

c. That neither the reporting officer, nor the post, can provide any assurance with respect to the successful outcome of the application; and that the forwarding of the application to Washington in no way ensures favorable action thereon.

d. That interested potential investors will be requested to get in direct touch with the applicant, by correspondence or by personal visit, and to deal directly with him in the actual negotiation of investment terms.

e. That United States Foreign Service personnel will not take part in such negotiations, but desire to be informed of the results of the negotiation, in order that its consummation may be brought to the attention of all interested agencies of the United States Government.

f. That any arrangements which may be entered into with United States citizens are subject to applicable provisions of the anti-trust and other laws

of the United States; these laws prescribe that no license, made under the official United States grant of a patent, trademark or copyright, can validly include terms and conditions that go beyond the original grant in such manner as to divide sales territory, to limit the production of commodities or their export from or their import into the United States, or to fix prices. (Economic Reporting Circular 29, of January 4, 1951, "Restrictive Business Practices", should be consulted in this regard.)

5.3 *Criteria for Determining Whether Application Should Be Reported*

In determining whether an application for an investment opportunity should be reported, the following should be ascertained:

- a. That the proposal is not obviously impracticable in the light of market requirements, availability of raw materials, level of consumption, et cetera.
- b. That there is no substantial evidence of the existence of unfavorable information on the applicant firm or on the key individuals connected with the firm.
- c. That a reasonably favorable climate for that particular project would appear to exist.

5.4 *Documentation of Application*

Specific instructions regarding the necessary documentation of each application are contained in Appendix I to this circular. [Not included in this document.]

5.5 *Preparation of Reports*

Reports should be prepared in accordance with the basic instructions set forth in Economic Reporting Circular 22, of August 31, 1950, "General Instructions Governing Preparation of Economic Reports," and with particular reference to its sections 5.3, 5.4, and 5.9. The suggested format is outlined in Appendix I of this circular. [Not included in this document.] In order to be fully useful, the reports of this series should contain the greatest possible amount of unclassified information.

6. *Category of Reports*

Occasional. That is to say, a separate report should be submitted promptly for each specific investment or patent-licensing opportunity as it arises and is judged by the officer to have merit. Reports should bear title "410319, Investment Opportunity."

7. *Dissemination of Investment Opportunities*

The Office of International Trade of the Department of Commerce will continue to publish, in the Foreign Commerce Weekly, a concise account of the investment and patent-licensing opportunities reported by the Foreign Service, also to provide for secondary publicizing through its regional offices. It is arranging also for: (1) the reprinting of pertinent opportunities in the accredited periodicals of certain industrial, trade and banking associations; (2) more direct dissemination in a new series of regular leaflets to be mailed to all those persons and firms known or believed to have a specific interest in opportunities of designated types.

APPENDIX II

TECHNICAL COOPERATION ADMINISTRATION

Circular Airgram, October 23, 1952

To Certain American Diplomatic Officers:

1. It has become increasingly clear that the success of our point 4 efforts in underdeveloped countries depends in large measure upon increased investments of private capital from the United States, other capital exporting countries, and from local sources. There is agreement in the executive branch that a considerable part of our total effort in the point 4 program must be directed to this end. The investment of private funds from capital exporting countries, particularly from the United States, has the added advantage in most cases of providing managerial and technical know-how to industrial development and will favorably affect the world dollar situation.

The Congress has recently reemphasized its interest in efforts to make wider use of private enterprise in the foreign assistance program, and DMS [Director

for Mutual Security] has asked all agencies concerned to cooperate in an intensified program. TCA and the Department of Commerce will pool their resources to carry out a joint program.

This circular airgram should of course be read in the light of activities already underway in your area, as well as in the light of local political conditions.

2. It is agreed that in the beginning this intensified program will consist, in the main, of the following three principal parts:

- (a) The encouragement of conditions favorable to private investment, both local and foreign.
- (b) The identification of specific opportunities for investment and location of interested investors.
- (c) The assembly and dissemination of country background information necessary to foreign investors.

The various phases of the program must of course be integrated, and the closest collaboration will be required among the missions, including the point 4 staff, the Department of State, including TCA/W, and the Department of Commerce, and its field offices.

Opportunities for investment abroad must be presented to private businessmen, both local and foreign, in the most specific terms possible. The assembly of background information on a country-by-country basis will provide potential United States investors with competent and reliable data as to the conditions and circumstances under which a private enterprise can be established and conducted. This information is also useful in efforts to develop a more favorable atmosphere for private enterprise, and will help in negotiations with the host country on specific restrictions which adversely affect the investment of domestic and foreign private capital, and in negotiation of international agreements, such as treaties of friendship, commerce, and development, investment guaranty agreements, and tax treaties.

3. In the field the mission, working with the host government, local business groups, and individual businessmen, will be responsible for identifying and developing specific information on opportunities for investment, assisting in supplying background information, and in carrying out negotiations with the host government in an attempt to make the investment climate more attractive. To carry out this program, it is suggested that all officials of the mission, including point 4 staffs, should be instructed to keep in mind constantly the desirability of encouraging private participation in developmental activities of all kinds.

The economic section of the mission should intensify the work it has regularly carried on in this field. In addition, the Country Director for Technical Cooperation should appoint a member of his staff who will be responsible for the private investment phase of the point 4 activities (ordinarily this will be the industrial adviser where there is such a position; where there is a definite and active interest on the part of the country, it may prove desirable to appoint a special assistant or adviser for this purpose). It is intended that the work of the point 4 staff in this field should supplement the work of the economic section, but not supplant or duplicate it. It will be the responsibility of the mission chief to work out means of coordinating the mission's total activities in this field.

In compliance with Foreign Service Economic Reporting Circular No. 31 of July 20, 1951, the economic section of the mission, with the assistance of the point 4 staff, should report the necessary details of specific opportunities for private United States investment. The cooperation of local private business groups should be solicited for the collection and exchange of information about investment opportunities. Assistance can and should be provided to officials and local businessmen in the development of effective methods for presenting investment opportunities.

Emphasis should be placed upon reporting all background information which would be valuable to United States agencies in Washington and to private businessmen in connection with the investment program. The point 4 staff should contribute to and supplement regular Foreign Service reporting with special reports covering specific items or factors affecting private investment which come to their attention in the course of their regular activities. Value of information concerning positive achievements of foreign private enterprise for dissemination in other areas should be kept in mind.

All means of furthering private enterprise through jointly agreed technical-assistance projects should be explored. Of particular long-range importance are projects designed to facilitate private investment through advice in such fields as government fiscal policies and administration, tax laws, mining and corpora-

tion laws, etc., and through advice and possibly joint action with respect to improvement of credit facilities and establishment and strengthening of institutions directed at channeling private capital into approved development enterprises.

Special consideration must be given to the encouragement of private capital to undertake economic development where feasible and to discourage the use of public funds, particularly United States public funds, in areas where private capital can possibly be induced to undertake the development.

The mission may find it possible to work with the foreign government in creating interest in increasing private investment, foreign and local, directing attention to the benefits, both social and economic, which private enterprise has brought to other areas and pointing up ways in which private enterprise could further national policy on terms consistent with the government's objectives.

4. In Washington TCA/W and the OIT [Office of International Trade] in the Department of Commerce will be responsible for making information supplied from the foreign missions available to interested business concerns, will assemble and disseminate background information regarding conditions and circumstances for investment in specific countries, and will assist in preparing for treaty and other types of negotiations in the interest of improving the investment climate. In certain cases Washington staff members may be made available for temporary work with the country missions in developing background information and other aspects of the program.

Specific information on investment opportunities and general background information will be made available to the American business community by a variety of means. The 43 Department of Commerce field offices provide a useful facility for this purpose. The various publications of the Department of Commerce and other means of communication will be fully utilized. It is intended also to arrange investment clinics and investment institutes on particular countries or regions and to carry on a substantial program of private consultation and counseling. This last is to be employed extensively not only in connection with investment opportunities reported from abroad, but also in connection with requests originating from United States businessmen for advice and assistance in establishing business abroad.

5. Plans are being made to send a small team of highly qualified experts composed of Government and private business representatives to 2 or 3 countries where it appears most feasible to especially emphasize the investment program to assist the mission in developing such a program.

Consideration has also been given to the possibility of contracting with private United States firms of consulting engineers or industrial research development institutes to assist the host Government in the identification and analysis of specific investment opportunities and the preparation of brochures suitable for serious consideration by private investors. Such private agencies might also, in a normal business fashion, bring this material to the attention of businessmen and firms likely to be interested.

6. The Department is of course aware of the delicacy of this subject in many countries. Every effort must be made to avoid giving impression that we are seeking to force United States capital on unwilling customers. We are certainly not, nor will we be, interested in doing this. On the other hand, forward steps in this field must not be suspended simply for fear of attacks from pro-Communists, et cetera. In considering steps to be taken, you should bear in mind that the Congress regards this phase of the point 4 program as of equal importance with the governmental assistance phase. The possibility that no substantial success will be achieved along these lines in a particular country is not regarded as a sufficient reason for taking no action.

7. Comments by the missions on the general aspects of this proposal and on the feasibility of either suggestion in paragraph 5 are urgently requested, including an outline of plans for carrying out these activities and suggestions for the improvement of this proposed joint program.

BRUCE, Acting.

Sent to missions of Addis Ababa, Amman, Asunción, Baghdad, Beirut, Bogotá, Cairo, Caracas, Ciudad Trujillo, Colombo, Damascus, Djakarta, Guatemala City, Habana, Jidda, Kabul, Karachi, LaPaz, Lima, Managua, Mexico D. F., Monrovia, Montevideo, New Delhi, Panama, Port-au-Prince, Quito, Rangoon, Rio de Janeiro, San Jose, San Salvador, Santiago, Tegucigalpa, Tel Aviv, Tripoli.

APPENDIX III

SAMPLE GUARANTY AGREEMENT

AGREEMENT BETWEEN THE UNITED STATES OF AMERICA AND THE REPUBLIC
OF THE PHILIPPINES

The Acting Secretary of State to the Philippine Ambassador

DEPARTMENT OF STATE
WASHINGTON
February 18 1952

EXCELLENCY:

I have the honor to refer to conversations which have recently taken place between representatives of our two Governments, relating to guaranties authorized by Section 111 (b) (3) of the Economic Cooperation Act of 1948, as amended. I also have the honor to confirm the understandings reached as a result of these conversations as follows:

The Governments of the Philippines and of the United States of America will, upon the request of either of them, consult respecting projects in the Philippines proposed by nationals of the United States of America with regard to which guaranties under Section 111 (b) (3) of the Economic Cooperation Act of 1948, as heretofore amended, have been made or are under consideration. With respect to such guaranties extending to projects which are approved by the Government of the Philippines in accordance with the provisions of the aforesaid Section, the Government of the Philippines agrees:

a. That if the Government of the United States of America makes payment in United States dollars to any person under any such guaranty, the Government of the Philippines will recognize the transfer to the United States of America of any right, title or interest of such person in assets, currency, credits, or of any property on account of which such payment was made and the subrogation of the United States of America to any claim or cause of action of such person arising in connection therewith. The Government of the Philippines shall also recognize any transfer to the Government of the United States of America pursuant to such guaranty of any compensation for loss covered by such guaranties received from any source other than the Government of the United States of America;

b. That peso amounts acquired by the Government of the United States of America pursuant to such guaranties shall be accorded treatment not less favorable than that accorded, at the time of such acquisition, to private funds arising from transactions of United States nationals which are comparable to the transactions covered by such guaranties, and that such peso amounts will be freely available to the Government of the United States of America for administrative expenditures;

c. That any claim against the Government of the Philippines to which the Government of the United States of America may be subrogated as the result of any payment under such a guaranty, shall be the subject of direct negotiations between the two Governments. If, within a reasonable period, they are unable to settle the claim by agreement, it shall be referred for final and binding determination to a sole arbitrator selected by mutual agreement. If the Governments are unable, within a period of three months, to agree upon such selection, the arbitrator shall be one who may be designated by the President of the International Court of Justice at the request of either Government.

Upon receipt of a note from your Excellency indicating that the foregoing provisions are acceptable to the Government of the Philippines, the Government of the United States of America will consider that this note and your reply thereto constitute an agreement between the two Governments on this subject, the agreement to enter into force on the date of your note in reply.

Accept, Excellency, the renewed assurances of my highest consideration.

For the Acting Secretary of State:

J. M. ALLISON

His Excellency

CARLOS P. ROMULO,

Ambassador of the Philippines.

The Philippine Ambassador to the Acting Secretary of State
EMBASSY OF THE PHILIPPINES
WASHINGTON
February 19, 1952

EXCELLENCY:

I have the honor to refer to your note of February 18, 1952, which is as follows:

"I have the honor to refer to conversations which have recently taken place between representatives of our two Governments, relating to guaranties authorized by Section 111 (b) (3) of the Economic Cooperation Act of 1948, as amended. I also have the honor to confirm the understandings reached as a result of these conversations as follows:

"The Governments of the Philippines and of the United States of America will, upon the request of either of them, consult respecting projects in the Philippines proposed by nationals of the United States of America with regard to which guaranties under Section 111 (b) (3) of the Economic Cooperation Act of 1948, as heretofore amended, have been made or are under consideration. With respect to such guaranties extending to projects which are approved by the Government of the Philippines in accordance with the provisions of the aforesaid Section, the Government of the Philippines agrees:

"a. That if the Government of the United States of America makes payment in United States dollars to any person under any such guaranty, the Government of the Philippines will recognize the transfer to the United States of America of any right, title or interest of such person in assets, currency, credits, or other property on account of which such payment was made and the subrogation of the United States of America to any claim or cause of action of such person arising in connection therewith. The Government of the Philippines shall also recognize any transfer to the Government of the United States of America pursuant to such guaranty of any compensation for loss covered by such guaranties received from any source other than the Government of the United States of America;

b. That peso amounts acquired by the Government of the United States of America pursuant to such guaranties shall be accorded treatment not less favorable than that accorded, at the time of such acquisition, to private funds arising from transactions of United States nationals which are comparable to the transactions covered by such guaranties, and that such peso amounts will be freely available to the Government of the United States of America for administrative expenditures;

c. That any claim against the Government of the Philippines to which the Government of the United States of America may be subrogated as the result of any payment under such a guaranty, shall be the subject of direct negotiations between the two Governments. If within a reasonable period, they are unable to settle the claim by agreement, it shall be referred for final and binding determination to a sole arbitrator selected by mutual agreement. If the Governments are unable, within a period of three months, to agree upon such selection, the arbitrator shall be one who may be designated by the President of the International Court of Justice at the request of either Government.

"Upon receipt of a note from Your Excellency indicating that the foregoing provisions are acceptable to the Government of the Philippines, the Government of the United States of America will consider that this note and your reply thereto constitute an agreement between the two Governments on this subject, the agreement to enter into force on the date of your note in reply." and to state, in behalf of the Government of the Philippines, that the understandings between your Government and mine as stated in your above-quoted note are correct and are hereby confirmed.

Accept, Excellency, the renewed assurances of my distinguished consideration.

CARLOS P. ROMULO

His Excellency
THE ACTING SECRETARY OF STATE
Washington, D. C.

APPENDIX IV
UNITED STATES DIRECT INVESTMENT OVERSEAS
A.—Value of United States direct investments in foreign countries, by country and type of industry for 1950, and country totals for 1943, 1936, and 1929
 [Millions of dollars]

Areas and countries	Agriculture	Mining and smelting	Petroleum	Manufacturing	Transportation, communication and public utilities	Trade	Finance and insurance	Miscellaneous	1950 total	Totals only ¹		
										1943	1936	1929
Canada.....	20.5	334.3	418.1	1,881.4	284.4	240.1	313.2	72.1	3,564.1	2,377.6	1,951.6	2,010.3
Latin American Republics:												
Argentina.....	(2)	(2)	48.5	146.0	77.0	34.9	22.0	7.6	354.6	380.1	348.3	331.8
Bolivia.....	(2)	(2)	(2)	(2)	2.4	2.0	(2)	(2)	11.4	13.2	18.3	61.6
Brazil.....	(2)	(2)	112.4	270.2	137.6	70.1	21.7	7.0	627.0	232.7	194.3	193.6
Chile.....	(2)	(2)	(2)	29.4	137.0	14.5	1.5	(2)	529.9	328.3	483.7	122.6
Colombia.....	(2)	(2)	111.7	24.8	23.1	8.9	3.9	3.0	193.5	117.0	107.5	124.0
Costa Rica.....	(2)	(2)	(2)	(2)	10.8	2.8	(2)	(2)	62.1	30.4	13.3	22.2
Cuba.....	239.0	(2)	20.4	71.8	270.5	18.7	(2)	9.8	638.4	528.3	666.3	919.0
Dominican Republic.....	(2)	(2)	(2)	28.2	10.7	1.7	(2)	2.3	105.7	70.5	40.7	69.3
Ecuador.....	(2)	(2)	(2)	(2)	3.3	1.7	(2)	(2)	14.2	10.8	17.2	11.8
El Salvador.....	(2)	(2)	2.3	(2)	16.8	3.3	(2)	(2)	18.4	14.9	17.2	28.5
Guatemala.....	(2)	(2)	3.6	(2)	72.2	3.3	(2)	(2)	105.9	86.9	50.7	70.0
Haiti.....	(2)	(2)	(2)	(2)	2.3	(2)	(2)	(2)	12.7	14.1	3.7	14.2
Honduras.....	(2)	(2)	(2)	(2)	8.8	(2)	(2)	(2)	61.9	37.0	36.4	71.5
Mexico.....	(2)	(2)	119.4	118.1	107.2	29.7	2.3	6.2	398.6	286.3	473.5	682.5
Panama.....	(2)	(2)	174.7	13.5	139.1	10.6	4.8	(2)	348.7	110.3	96.1	25.5
Peru.....	(2)	(2)	(2)	1.7	4.6	12.9	(2)	.8	140.0	70.8	98.1	123.8
Uruguay.....	(2)	(2)	55.1	33.3	1.6	4.3	12.4	.5	55.3	5.5	13.0	27.9
Venezuela.....	(2)	(2)	845.6	23.8	10.0	23.6	13.1	6.7	981.4	372.8	180.3	232.5
Other Latin American Republics.....	(2)	(2)	4.7	5.6	1.1	.6	(2)	(2)	15.3	13.3	8.6	25.6
Total.....	475.6	617.4	1,390.0	774.1	1,044.1	240.3	55.3	48.2	4,675.0	2,721.2	2,803.1	3,461.9

OVERSEAS PRIVATE INVESTMENT

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Eastern Europe:									
Belgium	17.0	34.8	4	10.6	(2)	1.8	64.9	62.9	434.9
Denmark	19.7	7.9	(2)	3.7	11.2	(2)	31.6	21.9	13.8
France	92.5	161.2	5.4	5.9	11.2	5.6	285.1	21.9	145.7
Germany	37.8	121.0	3.6	18.8	2.6	17.3	202.1	512.8	227.8
Greece	42.8	19.0	(2)	1.4	3.5	1.5	62.6	85.0	113.2
Italy	24.8	22.7	5	13.2	2.5	2.3	84.4	59.6	43.2
Netherlands	5.1	1.0	1.0	1.4	(2)	.6	30.1	26.7	23.0
Norway	6.4	2.2	(2)	5.4	(2)	3	16.0	13.9	11.5
Portugal	5.6	15.3	(2)	2.3	(2)	5.0	30.7	124.1	72.2
Spain	24.8	25.9	(2)	5.0	(2)	1.8	57.8	32.8	19.2
Sweden	3.8	10.1	(2)	5.7	9	(2)	24.5	43.7	16.8
Switzerland	122.7	535.2	10.6	102.0	16.0	50.0	839.7	518.8	5485.2
United Kingdom	23.5	10.1	1.2	10.6	.9	3.8	50.2	112.5	37.9
Other Western European countries	8	970.5	28.0	186.0	38.1	92.0	1,773.9	1,785.5	1,263.8
Total	17.7	440.8	(2)	(2)	(2)	(2)	(2)	239.0	88.7
Eastern Europe									
Western European dependencies:									
Belgium, Portuguese, and Spanish dependencies	(2)	4	6.2	1	2.0	.2	9.6	5.8	79.0
British dependencies in Africa	25.2	11.4	2	3.0	4	2	40.9	26.9	(2)
British dependencies in Western Hemisphere	3.0	31.0	1.4	2.7	2	2	86.8	36.6	57.0
Dutch dependencies in Western Hemisphere	23.4	148.6	5.0	3.0	(2)	.7	186.5	290.5	1027.1
French North Africa	(2)	11.0	2.0	.9	(2)	.1	14.5	8.3	(2)
French West Africa	(2)	15.9	2.2	1.2	(2)	(2)	17.5	4.6	9.9
Other French dependencies	(2)	87.3	.3	.3	-.2	(2)	94.0	12130.1	1266.0
Netherlands dependencies	6.3	87.3	.3	.3	-.2	(2)	94.0	12130.1	1266.0
Total	9.3	87.7	18.1	13.1	.2	1.2	429.8	231.8	169.0
Other:									
Australia	(2)	5.1	(2)	13.9	.2	7.8	197.9	114.1	13149.2
Burma, Ceylon, Iran, and Thailand	(2)	94.8	2	1.6	-.5	1.6	8.0	3.3	(2)
China	(2)	8.0	(2)	2.8	.1	(2)	59.7	40.7	113.8
Egypt and Anglo-Egyptian Sudan	(2)	3.1	5	6.0	-.5	2.1	16.8	16.8	6.5
Ethiopia, Eritrea, Libya, and Tanager	(2)	16.0	2.0	6.0	-.5	1.2	37.7	41.3	1432.7
India	(2)	13.0	(2)	1.7	(2)	(2)	4.5	(2)	(2)
Indochina	(2)	30.7	9.7	1.7	(2)	2.6	58.2	1713.3	60.7
Indonesia	13.5	12.5	5	-2.1	(2)	3.7	12.4	146.3	13.3
Israel	(2)	4.7	.8	4	-.1	3.7	19.0	32.9	46.7
Japan, Korea, and Formosa	(2)	9.2	(2)	4.4	(2)	6	82.0	17.5	(2)
Libya	(2)	9.2	(2)	4.4	(2)	3.7	24.8	13.7	22.0
New Zealand	(2)	27.4	47.1	4.9	.1	1.1	7.8	(2)	(2)
Philippines	15.3	23.3	47.1	4.9	(2)	1.4	149.2	94.6	79.0

See footnotes at end of table, p. 86.

OVERSEAS PRIVATE INVESTMENT

A.—Value of United States direct investments in foreign countries, by country and type of industry for 1950, and country totals for 1943, 1936, and 1929—Continued

Areas and countries	Agriculture	Mining and smelting	Petroleum	Manufacturing	Transportation, communication and public utilities	Trade	Finance and insurance	Miscellaneous	1950 total	Totals only ¹		
										1943	1936	1929
Other—Continued												
Saudi Arabia, Iraq, Jordan, Lebanon, and Syria	(2)	(2)	569.9	(2)	1.1	1.7		2	574.6	15 54.3	15 17.8	19 1.1
Union of South Africa		32.9	44.8	44.0	(2)	13.5	(2)	2.1	139.9	49.9	20 55.1	20 76.8
Total	38.7	56.4	895.6	210.7	53.6	79.0	2.9	24.4	1,361.3	486.5	481.0	534.0
Total, all areas	544.9	1,113.5	3,436.9	3,544.5	1,428.2	758.5	439.7	237.9	11,804.1	7,861.6	21 6,690.5	7,527.7

¹ Sources for the data shown for 1929, 1936, and 1943 are as follows:

1929—American Direct Investments in Foreign Countries, Trade Information Bulletin No. 731, U. S. Government Printing Office, Washington: 1930.

1936—American Direct Investments in Foreign Countries—1936, Economic Series No. 1, U. S. Government Printing Office, Washington: 1938.

1943—Census of American-Owned Assets in Foreign Countries, U. S. Treasury Department, Office of the Secretary, U. S. Government Printing Office, Washington: 1947.

The data reported in the Treasury publication was adjusted to exclude nonprofit organizations reported in the Treasury publication, entirely in Canada, to make it comparable with estimates for other years and the data for 1943 is based on figures which American stockholders owned more than 50 percent of the voting securities.

² Included in totals.³ Less than \$50,000.⁴ Includes Luxembourg.⁵ Includes Gibraltar and Malta.⁶ Valuations for properties in Eastern Europe and China were not generally available for the end of 1930.⁷ Portuguese Africa only.⁸ Not separately shown.⁹ Includes French and Netherlands West Indies.¹⁰ Includes French Indochina, French Oceania, and Thailand.¹¹ Includes all of French Africa, Belgian Congo, Italian Africa, Spanish Africa, Ethiopia, Liberia, and Tangier.¹² Includes Netherlands East Indies which appears as Indonesia in 1950.¹³ Includes New Zealand.¹⁴ Includes Ceylon and Pakistan.¹⁵ Included in Netherlands dependencies.¹⁶ Includes Jordan, Iraq, and Syria.¹⁷ Includes British Arabia, Iraq, and Syria.¹⁸ Includes Bahrain and Iran.¹⁹ Includes all other British Africa.²⁰ Includes \$26.2 million shown as "International."

Source: U. S. Department of Commerce, Office of Business Economics (Survey of Current Business, December 1952).

B.—Net movement of United States direct-investment capital, by area, 1951 and 1952

[Millions of dollars; inflow to United States (—)]

Area	1951	1952	Area	1951	1952
Total.....	603	830	Other dependencies.....	11	4
United Kingdom.....	26	—21	Other Europe.....	(1)	—
Iceland, Eire.....	(1)	(1)	Canada.....	271	403
Western Europe.....	51	4	Latin America.....	187	244
Sterling dependencies.....	—6	—25	All other countries (sterling).....	44	110
			All other countries.....	19	111

¹ Less than \$500,000.

Source: U. S. Department of Commerce, Office of Business Economics, June 2, 1953.

